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ABSTRACT

This collection of eight papers looks at how a system of loans for lifelong learning in Great Britain and New Zealand might be positioned. It examines where such loans might work best and where they seem inappropriate. In particular, the collection assembles the available evidence about the role and impact of loans in the world of education and training to draw conclusions from that evidence about how policy might be developed. The following papers are included: "Would Loans Help Lifelong Learning?" (Mick Fletcher); "Learning Loans: The Kent and Medway Pilots" (Nicholas Fox); "Loans for Student Support in Higher Education: The UK Experience and Lessons for Further Education and Training" (Nigel Brown); "Lifelong Learning: Who Pays Learns" (Ronnie Ogler); "Some Thoughts on Career Development Loans" (Chris Quarrie); "Loans for Further Education Students: Not the Solution to the Problem" (Claire Callender); "Post-19 Adult Learning and Higher Education in England: Funding Principles and Funding Options" (Mark Corney); and "Student Loans in New Zealand" (Sharon Biggar and Darrren Butterworth). Most of the papers contain reference lists. (KC)

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Would loans help lifelong learning?

Mick Fletcher

Introduction

In 2001 the Learning and Skills Development Agency (LSDA) produced a short publication entitled *Lifelong learning – is there a logic for loans?* (Fletcher 2001). It sought to examine the arguments for and against the introduction of a system of loans as part of the overall package of student support for learners in further education and concluded that there was a *prima facie* case for considering the use of loans to support some FE learners.

This publication aims to take the debate forward by looking at how a system of loans for lifelong learning might be positioned. It examines where such loans might work best and where they seem inappropriate. In particular the book seeks to assemble the available evidence about the role and impact of loans in the world of education and training, and to draw conclusions from that evidence about how policy might be developed.

The contributions

The most obvious source of evidence about the effect of loans is the recent experience of English higher education. **Nigel Brown** describes the development of the student loan system, and the significant changes it has undergone in its relatively short history. While he is careful to note the differences in context between higher education and further education, he is able to offer some insights into the potential for FE loans drawing from HE experience.

Claire Callender also draws on HE experience in a contribution which looks at student financial circumstances and the impact of recent changes in student financial support. While underlining the need for increased support, focused particularly on adult learners, her analysis of the impact of current arrangements leads her to the conclusion that loans are not the answer.

A comparative insight comes from the account by **Sharon Biggar and Darren Butterworth** of the introduction of a system of loans in New Zealand in the mid-1990s. Interestingly, the New Zealand scheme covers both higher education and the equivalent of further education, and despite the introduction of loans being associated with substantial fee increases does not appear to have impacted adversely on participation.

Evidence about loan schemes is not confined to higher education. **Chris Quarrie** summarises the experience of Career Development Loans in England. He concludes that while they seem to have met the needs of a proportion of the population they cannot, in their current form, help to promote social inclusion.

Nicholas Fox describes some innovative schemes operated by the Learning and Business Link Company (formerly Kent Training and Enterprise Council). He focuses on the Learning Loan Scheme, which although small scale has been seen as very successful and taken up and piloted in other contexts by the DfES.

Finally, two commentators reflect more generally on the potential role of loans in relation to learner support. **Ronnie Ogier**, a former college principal now working closely with the National Association of Managers of Student Services, reflects an institutional perspective. **Mark Corney**, a freelance consultant, draws on a background in policy analysis and support, and also reports the outcomes from a series of focus groups. From different starting points they come to remarkably similar conclusions about the principles that might underpin the development of policy.

Taken together the papers in this collection offer insights in four broad areas:

- They help clarify the aims of public policy in relation to loans and learner support more generally.
- They summarise evidence of the impact of loan schemes, particularly but not exclusively the impact on participation.
- They help develop a set of principles that might guide the development of loan arrangements for lifelong learning.
- They suggest a range of issues that policy-makers and practitioners need to resolve.

The aims of a loan scheme

In relation to the aims of a loan scheme three broad themes can be identified. The most commonly quoted one, to which most contributors to this collection subscribe, is that public funds are limited and therefore the costs of increased participation must be shared more widely. Loans are seen as a means of reducing costs or levering in additional resources. In the more technical terms used by Sharon Biggar and Darren Butterworth loans are seen as a way of 'overcoming imperfections in the capital market', which reduce the flow of private funds to below the optimum.

In providing a separate rationale for loans, Nigel Brown makes the point that the savings created by transferring from HE grants to loans can in principle be ploughed back into higher education, transferred to other areas of education or simply counted as savings. Those advocating loans for lifelong learning see the aim as not being to reduce government funding but to redirect it towards specific purposes. In the current context the generally agreed priority group seems to be those who have not achieved a qualification at Level 2.

There is, in some of the contributions, a third explicit policy aim. Some would see the use of loans rather than grants as a means of empowering individuals or improving their motivation. Nicholas Fox is, in this collection of papers, perhaps the clearest advocate of this aim. He suggests that loan finance increases the 'realism' of student choices and improves retention. He is not alone, however. Ronnie Ogier sees loans as potentially encouraging autonomy and responsibility in learners and Chris Quarrie identifies benefits in the guidance that he sees as necessarily linked to a proper loan scheme.

Learner needs and the impact of loans

The studies provide useful evidence of both the need for improved financial support for adult learners and the impact of existing loan arrangements. The work of Claire Callender and colleagues has given us the clearest picture of students' financial circumstances, but several of the contributors, including Nicholas Fox, Mark Corney and Chris Quarrie, document significant disparities in access to financial support. While there is still debate about the most appropriate policy response there is clear agreement that adult learners in FE are disadvantaged compared with either adults in higher education or 16–19 year olds in schools and colleges.

A key question for policy-makers is how introducing a system of loans might impact upon learners' choices. Nigel Brown documents the take-up rate of student loans in higher education showing that the great majority of those eligible now take out loans; he rightly warns, however, that we still have relatively little experience of the scheme on which to base judgements. Claire Callender focuses on the different responses of different students. Those from the most disadvantaged backgrounds tend to accumulate the largest debts, and are most likely to express concerns about indebtedness. She highlights the strategies adopted by some students to avoid indebtedness, such as attending shorter courses or more local institutions. These may be rational responses to a concern about debt but result in such students making less advantageous choices and reinforcing a cycle of disadvantage.

Mark Corney reports evidence from focus groups which suggests that a proportion of adults who are motivated to learn but face a financial constraint are prepared to consider loan finance. The groups showed a strong preference for income contingent loans. Claire Callender quotes similar evidence, but in support of a different argument: a survey of FE students showed that they were twice as likely to consider taking out a loan for learning if they thought that they would benefit financially from the course. Taken together these findings may help explain how 'debt aversion' appears to be a significant factor in a society with record levels of consumer debt. Perhaps disadvantaged students are not so much debt averse as averse to investing in something they do not believe will bring a return. An income contingent loan can help overcome such aversion since if there is no return there is no repayment.

Principles for a loan scheme

Mark Corney makes the most explicit attempt to set out the principles that should guide the development of a loan scheme for lifelong learning. He suggests that a useful starting point could be defined by two principles which he calls the **initial qualification principle** and the **individual financial rate of return principle**. Put simply the first suggests that the primary call on public funds should be to help individuals get an initial qualification at a given level rather than to repeat one at the same level; the second suggests public subsidy should be in inverse proportion to the rate of return to the individual. While others do not express themselves in the same way it is clear that they implicitly share the same view. Ronnie Ogier, for example, quoting the work of the National Skills Task Force, argues for free tuition for adults up to Level 2 and a system of loans to meet tuition costs for adults at Level 3.

It can be noted that the principles advocated here are very similar to those advocated by Wendy Piatt and Peter Robinson (2001) in the recent IPPR report *Opportunity for whom? Options for the funding and structure of post-16 education.*

Chris Quarrie approaches the same principle from a different direction. He sees the need to supplement the existing Career Development Loans with other products that can help extend the range of potential users. On one side he sees the use of straightforward commercial loans for those learners well able to pay and certain of a return on their investment; on the other an income contingent loan for those who are either less certain of a return or less able to take a risk. Presumably the hierarchy can be extended to include grants for those whose training is unlikely to result in significant reward, those on basic skills programmes, or perhaps those preparing for certain public sector careers.

It is interesting that Nigel Brown hints at exactly the same hierarchy, suggesting in an aside that for some expensive training programmes with very high rates of return the existing Career Development Loan is a better use of public funds than an income contingent loan.

In this collection of papers Claire Callender is the exception, arguing that loans do not have a place in student support arrangements for further education. The difference between her and other contributors is less than might be supposed, however, since a significant part of her argument is based upon the lower financial returns received by FE learners. She quotes the work of Dearden *et al.* (2000), which shows the returns to Level 3 qualifications as significantly less than a degree, and lower-level NVQ and City & Guilds qualifications as not 'yielding an economic return'. The dispute it seems is not so much about the principle but its application.

Claire Callender introduces another key principle, that of 'entitlement'. In her previous work on student financial support she has criticised the 'funding lottery' created by discretionary awards. Although the introduction of Access Funds in colleges has significantly increased the total support available, from the perspective of the individual it is still unpredictable and therefore a potential barrier to access. While she argues that learners should be entitled to grant support through an Educational Maintenance Allowance, the approach of many of the other contributors also has an implicit notion of 'entitlement' embedded in it. Chris Quarrie, for example, is concerned about the lack of an entitlement to support in the system of Career Development Loans. Mark Corney is in effect describing a new set of entitlements for different learner groups.

Implementation issues

A number of the papers identify a series of practical issues concerned with the implementation of a national system of loans for lifelong learning. One general conclusion is that a single system of support for adult learners is preferable to separate arrangements for further and higher education. Both Mark Corney and Nigel Brown make the point that in order to minimise the burden on employers it would be necessary to use the same earnings thresholds and repayment parameters for both FE and HE loans. It would also make sense to have a common policy on rates of interest. The New Zealand experience is helpful here showing that a common framework covering all levels can be made to work.

Several of the contributors stress the need for a system of loans to be accompanied by a comprehensive adult guidance service. Chris Quarrie spells this out in some detail and describes the need for guidance on both the financial and educational aspects of an individual's proposed investment. He feels that it is necessary to stop individuals burdening themselves with too much debt and also prevent them investing heavily on the basis of a misreading of the labour market. Ronnie Ogier also writes about the need for more formal arrangements to help students manage the financing of their studies, as well as support in making realistic career choices.

Finally, several of the contributors raise the question of whether a vehicle like an individual learning account might be needed to help keep track of the various strands of financial support available to and accessed by individuals. This may be particularly pertinent when loans are seen not as a single entity but as a hierarchy of possible options which can be accessed in different circumstances, when loans are seen not as the only component of learner support but as an element alongside grants, fee remission, childcare support and adult guidance.

Conclusions

The papers in this collection raise many interesting issues relating both to loans and to learner support more generally. Three key points, however, stand out.

The first is that there is a strong measure of agreement among the contributors as to the principles that need to shape the contribution that a system of loans can make to financial support for learners. Central to them is the ability to repay as measured by the individual rate of return; closely linked is the principle of income contingency. Even the one contribution that opposes the extension of loans to further education does so on the basis of a commonly held principle.

The second key theme is that there is no 'one size fits all' solution. All contributors see loans as only part of the solution, and it is widely agreed that there is a role for different types of loan arrangement. The notion that there ought to be an entitlement to a range of support from grants to commercial loans, determined by personal circumstances, would seem to command widespread assent.

The third key theme emerging from the papers is that there is clear evidence of demand from some individuals for loans. The papers between them describe the experience of four different schemes plus research evidence from surveys and focus groups. It is equally clear that many people do not want to take out a loan, also that there are some who want to but ought to be dissuaded. In the face of the evidence presented here, however, it is hard to deny that loans should be added to the list of options available in some circumstances to lifelong learners.

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Dearden L, McIntosh S, Myck M, Vignoles A. *The returns to academic, vocational and basic skills in Britain*. Skills Task Force, DfEE, 2000.

Fletcher M. *Lifelong learning: is there a logic for loans?* LSDA, 2001.

Piatt W, Robinson P. *Opportunity for whom? Options for the funding and structure of post-16 education*. Institute for Public Policy Research, 2001.

Learning loans: the Kent and Medway pilots

Nicholas Fox

Introduction

The growing encouragement for individuals to participate in lifelong learning inevitably leads to the question of finance. Finance in terms of who pays, but also on what terms and how. The simple model that government pays for initial education, employers for vocational training and individuals for leisure learning needs to be updated for several reasons. Government is unwilling – and probably unable – to pay for all the lifetime learning an individual may wish to undertake. Employers rationally limit the level of training to current and short-term needs, especially as the jobs for life culture is replaced by multi-career patterns of employment. Individuals are constrained by current wealth as to the level of learning they are able to purchase – even if the return on investment would justify a higher expenditure. Economic rationale encourages the development of mechanisms to reduce short-term payment constraints, while maintaining a long-term rationality to the level of investment in learning.

Loans are one mechanism to increase an individual's ability to pay for learning in the short term by borrowing against the future benefits that will derive from application of the learning outcomes. In addition, it may be that by using a loan system individuals become more aware and more empowered in their learning decisions. In particular, individuals will be better motivated to ensure the potential benefits are actually achieved in order to ensure repayment of the loan. Thus, a loan system can enhance both the quantity and quality of learning.

The Learning and Business Link (LBL) Company (formerly Kent Training and Enterprise Council, TEC) devised a number of finance for learning products which it operated from 1996 until its incorporation into the Learning and Skills Council in 2001. The strength of one product, the Learning Loan Scheme, was such that it was transferred to the Individual Learning Company to ensure it continued operation.[1] Moreover, the scheme is now being replicated on a pilot basis with support from the DfES.

In this paper the experience of these financial products, in particular the Learning Loan Scheme, is considered with a view to understanding the logical justification for a loan approach. Feedback from the evaluation of the Learning Loan Scheme is used as a basis for identifying key policy and practical points for consideration in the design and implementation of a financial loan for learning scheme.

Learner motivation and finance for learning

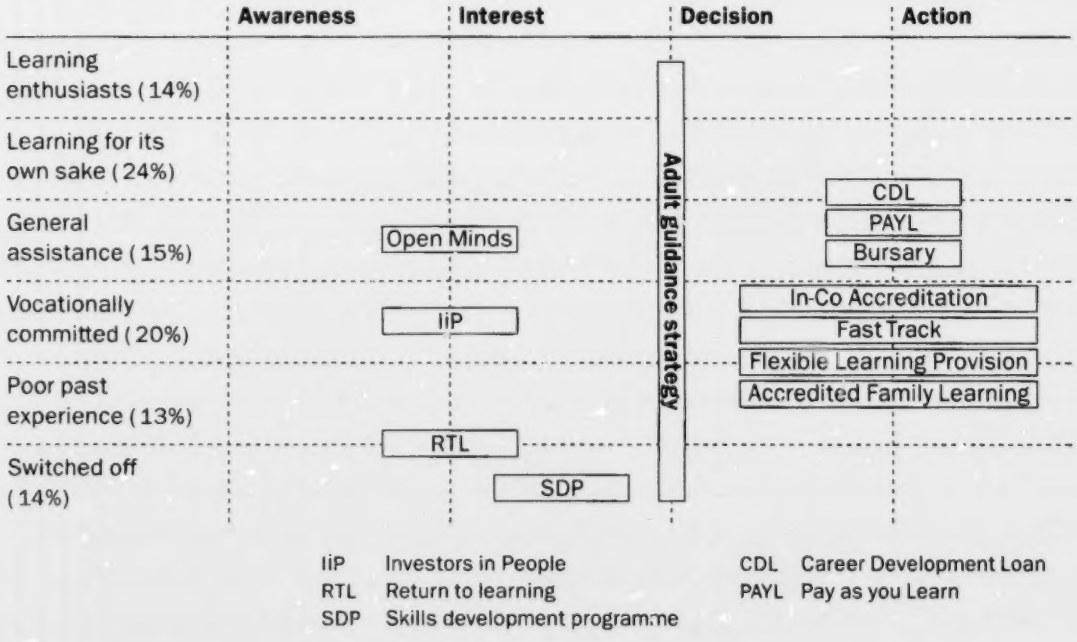
In 1996 the then Kent TEC carried out a study on learner motivation and barriers to learning. Through cluster group analysis, six learner motivation groups were identified:

- learning enthusiasts (14%):
  strong advocates for learning, highly active learners
- learning for its own sake (24%):
  learning is a pleasurable activity in its own right
- general assistance (15%):
  learning is appreciated for specific benefits
- vocationally committed (20%):
  learning undertaken where it is work related
- poor past experience (13%):
  reluctant to learn because of previous learning experience
- switched off (14%): actively anti-learning.

The reported barriers to learning were the normal range of factors such as time, cost, lack of suitable provision, transport, childcare etc.

To understand better how different TEC interventions could increase the quantity and level of learners, four stages of engagement into learning were adopted. These stages were based on the AIDA marketing model – Awareness, Interest, Decision and Action. By covering the learner groups and AIDA model, a matrix framework was produced onto which different interventions (programmes, initiatives) were mapped (see Figure 1).

Figure 1 Learner groups: AIDA matrix framework



It was concluded that Career Development Loans (CDLs) were useful to those individuals who were already motivated to learn, had decided which provider and course they wanted to attend, but lacked the finance to actually enrol. A 'Return to Learn' matched grant scheme for employers supporting non-vocational learning was identified as generating an interest in learning from relatively de-motivated learners.

Two new financial schemes were designed. One of these – a Pay as You Learn trial – was operated through a local FE college. Essentially, this consisted of the TEC underwriting stage payments by learners. Although the numbers involved were relatively modest, evaluation showed a higher user satisfaction with the facility. However, only 15% indicated that it made a difference to whether or not the course was undertaken. Thus, a 'loan' of this type would appear to be useful but only marginal in changing the level of learning uptake.

The Kent Learning Bursary was introduced as a financial incentive for saving to learn. Individuals were offered a bonus for paying for their own learning and / or making savings for learning into a special interest-bearing building society account. This bonus became payable after initially 3 years. Even with heavy promotion, reduction of the minimum saving period, and a 20% bonus offered, take-up of the scheme was low.

During this period, the TEC was one of the leading performers for CDLs. However, once the TEC subsidy for CDLs was removed, the level of take-up dropped very significantly. This suggests that though some people are willing to consider taking a loan for learning, they are sensitive to the overall cost of the loan.

The TEC then designed a Learning Loan Scheme to complement its other existing finance for learning products, including individual learning accounts (ILAs) and a Training Grant Initiative for small companies. Table 1 (page 10) shows a comparison between these different schemes and initiatives.

Learning Loan Scheme

The Learning Loan Scheme was established with financial support from a major British charity in order to demonstrate the potential role of a learning loan to support adults for whom access to finance was a barrier to learning. The scheme was established in April 1999 with administrative support provided by the Learning and Business Link Company through the TEC Discretionary Fund. A network of local intermediaries, guidance professionals, training providers and others was established. These organisations had previously cooperated in the launch of ILAs – seen as a complementary product to the Learning Loan.

Table 1 Comparison of Learning Loan and other schemes and initiatives in Kent

The product	The Learning Loan Scheme	Career Development Loan	Individual Learning Account
Personal details			
Age	18+	18+	18+
Residency in Kent	UK resident 3 months+	UK resident 3 months+	UK resident 3 months+
Employment status	Employed – 80% of fees	Unemployed – 100% of fees	n/a
Your finances			
Do you need savings?	No	No	Yes – minimum of £25
Amount needed for learning	£100–3000	£300–8000	Dependent on individual savings, ie opening account Individual contribution £25 lbl.co.uk contribution £150 Total for learning: £175
Costs above 'learning', eg travel/childcare	Yes – you pay for 'extras' and claim the costs back	Yes – although individually negotiate with lender (limited availability)	No
Credit history	Not required	Credit check required	Not required
Ability to repay	Optional 6-month repayment holiday. Repayment examples: £100–500: up to 6 months to pay £501–1000: up to 1 year to pay £1001–2000: up to 2 years to pay £2001–3000: up to 3 years to pay	Nothing to pay for 3 months after the learning is finished; a further repayment holiday of 6 months can be applied for	No criteria
Funding source	The Learning and Business Link Company Interest free – 0%	Banks – Royal Bank of Scotland, Clydesdale Bank, Co-operative Bank and Barclays (favourable lending rates)	Jointly between you and the Learning and Business Link Company
Learning details			
Duration of learning	Up to 2 years	2 years (or 3 years on a sandwich course)	No criteria
Course type	Full- or part-time vocational study	Individuals' choice	Full- or part-time vocational study
Provider type	Qualified training provider	Qualified training provider	Qualified training provider
Immediacy of learning	Immediate requirement to learn	Immediate requirement to learn	No criteria

Kent Learning Bursary For learning you want to do	Kent Learning Bursary For learning you've already done	Training Grant Initiative	Return to Learn	The product
				Personal details
18+	18+	n/a	n/a	**Age**
UK resident 3 months+	UK resident 3 months+	n/a	n/a	**Residency in Kent**
n/a	n/a	Employed. TGI is available to private sector companies	Employed	**Employment status**
				Your finances
Yes – minimum of £20	No – just proof of payment*	No	No	**Do you need savings?**
Each deposit into the account attracts an additional 20% up to a maximum bonus of £1000 ie total saved £5000 bonus paid +£1000 to learn with £6000	The Kent Learning Bursary offers a 20% bonus towards your learning up to a maximum of £1000 bonus	25% refund of learning taken	Maximum course cost is £100 (jointly funded between the employer and the Learning and Business Link Company)	**Amount needed for learning**
Yes	Yes	No	No	**Costs above 'learning', eg travel/childcare**
Not required	Not required	Not required	Not required	**Credit history**
No criteria	No criteria	Not applicable as finance is arranged through the employer. The refund is available to the employer up to a maximum of £1000 or £1250 if the company is working towards Investors in People	Not applicable. The employer and the Learning and Business Link Company based on 50:50 matched funding up to a maximum contribution from lbl.co.uk of £50 per person per year	**Ability to repay**
Jointly between you and the Learning and Business Link Company (there is the opportunity for your employer to contribute to this method of paying for learning)	Jointly between you and the Learning and Business Link Company (there is the opportunity for your employer to contribute to this method of paying for learning)	Funding arrangements are between the employer and the Learning and Business Link Company. No individual arrangements can be made	Funding arrangements are between the employer and the Learning and Business Link Company. No individual arrangements can be made	**Funding source**
				Learning details
No criteria	No criteria	No criteria	No criteria	**Duration of learning**
Full- or part-time vocational study	Full- or part-time vocational study	Funding not available for training which is legal requirement of the employee's job	Must be non-job specific	**Course type**
Qualified training provider	Qualified training provider	Qualified training provider	Qualified training provider	**Provider type**
No criteria	No criteria	No criteria	At the discretion of the employer and the individual	**Immediacy of learning**

*Refunds are made against the amount before VAT as shown on the invoice that has been paid

The key features of the Kent and Medway scheme are that:

- it is available for individuals with difficulty in accessing high-street financial services – *no credit scoring*
- tuition, exams, travel, childcare, related materials and living costs can be supported
- a repayment holiday facility allows individuals time to find employment
- no interest is charged – *a cash advance*
- there is up to a 3-year repayment period
- there are flexible repayment arrangements – *learn now, pay later*
- second loans are available – *paths for progression*
- it has a maximum value of £3000.

The key principles of the scheme are:

- a cultural shift to personal and community responsibility for learning
- empowerment of the individual by providing greater access to learning
- a new source of finance
- reduction in financial exclusion
- the multiplier effect providing additionality of grants
- trust remains a pivotal element.

Selection of individuals to be offered a loan is done by the intermediary organisation against criteria defining the key target audience – that is, those unable to access learning due to a financial barrier who have no access to other sources of financial support. Deliberately, the scheme generates no publicity – in part to avoid overdemand and in part to preclude a 'by right' assumption of a loan being available. The applicants are particularly asked to assess the reality of their prospects to repay the loan.

A unique feature of the Learning Loan Scheme is the recycling of repayments. All repaid loans are added back into the original loan pool. Following the demise of TECs, an administrative charge is now made on the loan pool. However, it is anticipated that through recycling up to five times as many loans will be made from the original loan pool investment. The take-up of the scheme has been one-third for IT office skills, and one-third for IT engineering skills. The other courses range from aromatherapy to yacht cooking (the latter has provided the individual with a 2-year employment contract cruising in the Mediterranean).

The key results at summer 2001 are:

- number of loan users 163
- amount borrowed £226,626
- average loan value £1416
- average loan duration 22 months.

Loans tend to be of £500 to £700 in value or £3000, reflecting the type of learning being undertaken (update or career change). Repayments already exceed 10% of the money advanced, representing a further 17 loans being advanced from the original loan pool. Deferrals and defaults have affected approximately 15% of the loans – it is too soon to be precise about final default rates since the scheme offers great flexibility in rescheduling of debts.

Evaluation results

In February 2000 an independent evaluation was carried out by Diagnostics on an initial contact of 128 loan users. This showed that compared with the population of working age, users of the loan are younger and have a higher proportion of men, and of ethnic minorities. Their level of education is similar to the national population, though compared with CDL users they are less well educated and more likely to be unemployed. Loan users are motivated learners, according to the LBL Learner Motivation Matrix.

The key reasons participants gave for using the scheme were (in order of importance):

- they had few non-financial barriers to learning and the loan enabled them to overcome financial barriers
- the majority could not fund their learning through current earnings or savings
- they were not offered, or did not accept, staged payment schemes offered by the training provider
- they were reluctant to apply for a CDL or commercial loan because of fear of rejection.

The most important features of the scheme, as identified by loan users, are (in order of importance):

- zero interest rate
- generous and flexible repayment schedule
- speed of decision-making.

The majority of loans funded tuition only, representing 96% by value of funding. Some 12% of loans included travel, accounting for only 2% of funding. Only one loan funded any living expenses. Two-thirds (69%) of learners opted to take the 6-month repayment holiday. Projected repayment schedules vary from less than 6-months to the maximum 36 months – generally following the illustrative examples provided in the scheme literature.

A critical ingredient to the success of the scheme is viewed as the establishment and maintenance of close, individual contact with loan users. This facilitates flexibility in adapting loans and repayments to the needs and circumstances of the loan users. It also facilitates the speed of decision-making, which was also regarded as an important feature by many loan users.

The judgement of the evaluators was that the majority of loan users would not have been able to fund their training in any other way.

Future developments of the loan scheme

The future development of the scheme locally will focus on improving repayment arrangements and generation of funding. The repayment arrangements are being modified to incorporate a minimum starting repayment of £5 per month, one month after the start of the loan, with the full repayment schedule commencing a specified period after the end of the course. This is designed to ensure continuity of contact with and repayment by individuals – while preserving the essentially deferred nature of the loan.

The fundraising is being focused on a cost–benefit approach rather than appealing for funds for a good cause. The intention is to persuade donors of the added value of a loan approach to the funding of training. This could include sector-specific loan pools sponsored by a group of companies, or a local neighbourhood approved as part of a regeneration initiative. One set of issues being faced is the willingness of some agencies to sponsor the innovative loan approach rather than a traditional grant or cost subsidy.

At a national level the DfES has shown an interest in how the model can be replicated across the country. A management pack for scheme hosts has been prepared for use by a range of community-based organisations. The intention is to create a number of local schemes, adapted to local needs and circumstances, rather than to try to establish a single 'national' scheme centrally administered. These schemes will be provided with initial support from the Individual Learning Company. In parallel, it is intended to establish a 'membership scheme' to form a mutual support network to identify and promote good practice.

Policy issues and conclusions

Many individuals expect, 'by right', external funding support for their learning. This is seen as an entitlement from the state for initial education and, if necessary, re-training following unemployment. Similarly, employers are expected to provide any necessary on-the-job training. The lower average of take-up by the Kent and Medway Learning Loan Scheme suggests that younger people are perhaps more willing to accept a loan approach.

The relative predominance of men and above average take-up by men suggests that a loan approach may be more acceptable than existing alternative schemes. Whether this is because alternative schemes cater particularly well for women, or have barriers to men, may be a moot point.

It is interesting to note that by comparison the range of courses taken is not dissimilar from those undertaken using ILAs. This may be explained by the limited selection of loan intermediaries from organisations who are also ILA providers.

The take-up of qualifications by loan users is also similar to the local take-up of qualification courses by ILA holders. However, while there is a strong proliferation of NVQ holders among the ILA population, it is almost non-existent for loan users. This suggests the publicly based ILA grant system may be distorting the type of qualifications undertaken.

The evaluation showed that, wherever possible, all loan users have completed their programmes (though there have been two non-starts on distance learning courses). This high retention rate probably reflects the enhanced learner motivation required to become a loan user. However, it would be interesting to calculate the saving of public funding, against the higher administrative costs of a loan-based system.

The loan evaluation indicated that all users felt that their learning had achieved the predicted level of benefits. This would support the proposition that loan users have a better idea of the potential value of a course and work to ensure that the benefits are indeed achieved.

The experience of the Kent and Medway Learning Loan Scheme would therefore suggest the proposition that a learning loan system:

- increases the quantity of learning activity by overcoming financial barriers faced by some motivated learners – despite the range of existing financial support mechanisms for learners
- increases the quality of learning activity by ensuring a more realistic selection of learning, enhanced retention rates on courses and greater realisation of potential benefits after the course.

Notes

1 The Individual Learning Company (ILC) was formerly part of the Learning and Business Link Company. The ILC was originally established to operate the South East ILA voucher system, which was also adopted at a national level prior to the launch of the ILA national framework arrangements in September 2000. The ILC is a not-for-profit organisation which provides support to strategic lifelong learning initiatives, particularly in the field of finance for learning.

Loans for student support in higher education

the UK experience and lessons for further education and training

Nigel Brown

Introduction

This paper seeks to draw out the lessons for further education and training from the experience of the last 10 years of the availability of publicly subsidised student loans towards the maintenance costs of full-time undergraduate HE students. Although student loans have been available since 1990, the present system, which replaced all mandatory maintenance grants with loans, was only introduced in 1998/9. At the same time the government introduced a means-tested contribution to tuition fees. Moreover, the new loans introduced from 1998/9 differed in important respects from the earlier loans. In particular, repayments under the scheme adopted from 1998/9 were made **income contingent**.

The research literature on the current system is, therefore, somewhat sparse, given the limited time since 1998/9. Furthermore, it is often difficult for individuals and their families to distinguish the differing impact of the introduction of tuition fees and the impact of the ending of mandatory maintenance grants. Finally, the first cohort of students with the new-style loans have only graduated in the summer of 2001 and will not start making repayments until April 2002. The new administrative systems for the collection of loan repayments have not yet therefore been fully tested.

The population of individuals undertaking post-16 education and training outside higher education is also much more heterogeneous than the population of individuals in higher education. It is therefore essential that account is taken of the different groups within further education and training in seeking to draw lessons from the experience of loans in higher education.

The 1990 loan scheme

In 1988 the government published a White Paper (HMSO 1988) in which it set out its proposals for the introduction of loans for full-time HE students as a means of supplementing means-tested mandatory grants to support student living costs. These proposals were made in the light of continuing concerns about the cost of maintenance grants, the continuing erosion of the purchasing power of the grant and a view that graduates, who on average received a better individual rate of return from participating in higher education than the return to the state,[1] ought to be expected to contribute more. In addition, the availability of loans was seen as a way of assisting those students whose families either could not or would not pay their assessed contribution under means-testing.

The proposals in the White Paper were enacted in the Education (Student Loans) Act 1990. The Act empowered the Secretary of State to make provision of subsistence loans to full-time HE students below postgraduate level.

The main features of the loans were:

- they were open to all UK nationals on full-time HE courses
- there was no credit assessment or means-testing
- they were 'mortgage style' in that they were to be paid off by equal instalments over a fixed period of 5 years once a graduate's income exceeded a threshold
- the threshold was set at 85% of average earnings, below which repayments could be deferred, but with deferment reviewed annually
- unless deferment was agreed repayments started in the April following graduation
- outstanding loans were cancelled after 25 years or when the borrower reached the age of 50, provided the borrower was not in default
- the loans had a zero real rate of interest[2]
- although the government had originally sought to persuade the high-street banks to undertake the administration of the loans, the banks declined and the government established the Student Loans Company (SLC) to administer student loans instead.

The government had originally intended to increase the value of the loan over a period of about 10 years, while keeping the maximum value of the maintenance grant frozen, until the maximum loan and the maximum means-tested grant were approximately equal. Because of the very rapid increase in enrolments between 1990 and 1993, the government decided to accelerate from 1994 the process of increasing the share of total maintenance support that the loan represented. Equality of the maximum student loan and the basic maintenance grant was achieved by 1996/7.

In 1995/6, the sixth year of operation of the scheme, the principal statistics of the loans were as follows:[3]

- 'full-year'[4] student loans accounted for between 41 and 42% of the total funds available
- 560,000 students received a loan, representing 59% of those eligible
- total loan payments were some £700m
- the average amount of the loans paid was £1252
- over 40% of those liable for repayment had been granted deferment because their income was below the deferment threshold, which in 1995/6 was £15,204 per year
- repayments from those due to repay amounted to £65.8m.

The recommendations of the Dearing Committee and the government's response

The National Committee of Inquiry into Higher Education (NIHCE) – the Dearing Committee – was established in 1996 to undertake an across-the-board review of higher education, including student support, and to report by the summer of 1997. However, one of its principal aims was to find new ways of meeting the funding requirement of higher education. The Committee concluded that, given the high *average* level of the personal rate of return to graduates from higher education, graduates in work should be expected to make an increased contribution towards the costs of higher education (NIHCE 1997a, paragraph 18.28, page 290).

The Committee identified four options for securing this increased graduate contribution.

- Option A transferred all maintenance support into loans, but with no contribution to tuition fees.
- Option B – the Committee's preferred option – kept the then 50–50 split of loans and means-tested maintenance grants for living cost support but required a 25% contribution to tuition cost with loan support for the contribution.
- Option C like option A transferred all maintenance support into loans and like option B required a 25% contribution to tuition costs, but unlike option B the contributions were means-tested and payable up-front with no loan support.
- Option D put all living cost support in the form of means-tested grants, but with a 25% contribution to tuition costs with loan support for the contribution.

The Committee, however, recommended some key changes to the nature of the loans, whether for maintenance or to support contributions to tuition, in particular that repayments should be linked to graduates' incomes rather than determined by the fixed period of repayment. This approach of **income contingent loans** had already been applied under the Australian Higher Education Contributions Scheme (HECS)[5] and had been recommended in a number of papers on student loans by Barr and Crawford from the London School of Economics from 1988 onwards (eg Barr and Crawford 1996). Barr and Crawford had also recommended that repayments should begin at a much lower income threshold than the 85% of average earnings in the then system. The Committee recommended a lowering of the threshold on the basis that repayment would only be on the marginal income above the threshold, but to a level well above the National Insurance contributions threshold proposed by Barr and Crawford.

In the event the government decided to implement Option C. The Teaching and Higher Education Act (1998) introduced means-tested contributions to tuition fees up to a ceiling of £1000 indexed for inflation, and transferred all maintenance support to loans. The final 25% of the loan was means-tested. It also provided crucially for the repayment of these loans to be income contingent and for repayments to be collected through the tax system. These changes were introduced on an interim basis from 1998/9 and fully from 1999/2000.

In the year 2000/01, take-up of loans was over 75% of eligible students.

Loans for part-time higher education students

From the start of the academic year 2000/01 the government also made available loans for part-time undergraduate students on a means-tested basis. The loans, of maximum value £500 per year, are intended to contribute towards the costs of studying. They are not maintenance loans to avoid the possibility of conflict with the benefits system, since some eligible part-time students will be benefit recipients. Individuals are entitled to up to six £500 loans. The loans are made available by the Student Loans Company and the repayments will be income contingent and collected through the tax system on the same basis as loans for full-time undergraduates. To date take-up of these loans has been very modest.

Career Development Loans

For students outside the scope of the student loan scheme, in particular postgraduate students, but in principle at least some FE students, the government has also made available Career Development Loans (CDLs) to assist with study costs, including course fees. These have been administered by the banks, who have applied credit checks to recipients. The amount borrowed can range from £300 to £8000, depending in part on course fees to be covered. The loans are 'mortgage style' with a fixed repayment term, but are subsidised in that they are interest free during the course of study. This initiative has been relatively modest with around 15,000 loans made each year, mainly to individuals undertaking postgraduate vocational study. This low take-up principally reflects the limited funding provided by the government.

Issues for the extension of student loans to individuals undertaking further education and training

Although the changes to the student loan system following the Dearing report have yet to work through fully, it is possible to draw some conclusions about the implications of extending loans to individuals undertaking further education and training. The following issues appear to be the most important:

- the existing systems of financial support
- the cost of loans and the target group(s)
- the purpose of the loan
- the level of loan debt and the impact of debt aversion on participation
- the administration of loans and the impact on employers.

The existing systems of financial support

Loans were originally introduced into higher education to supplement mandatory means-tested maintenance grants in that they replaced means-tested funds with non-means-tested funds. Subsequently the government decided to replace all mandatory grants with loans and to means-test access to 25% of the loan. While there are of course all kinds of real and psychological distinctions between money that is given in the form of a grant and the same money given in the form of a loan, the same amount of support from public funds was being provided to full-time undergraduate students at the time of study.

Thus it is not surprising that initial student hostility to the introduction of loans in 1990 was subsequently muted and that by 1996 the National Union of Students had sought and secured the commitment of the Labour Party to abolish maintenance grants.

The starting point for students in further education and training is very different. Only now is anything like a comprehensive system of financial support being introduced and then only for 16–19 year olds with the advent of means-tested Educational Maintenance Allowances (EMAs) for those in further education and the training allowance for those on the work-based training route and not in receipt of a wage. There is no comprehensive provision of financial support for students aged 19 and over in further education and training. There are at least 40 special schemes of support that are deliberately targeted at certain groups or those on certain types of courses, for example the discounts available on some IT courses. Some students over 19 studying part-time will be in receipt of state benefits but this limits the amount of study they can undertake.

Against this background, to make loans available to individuals aged over 19 in further education or undertaking training would represent an improvement compared to now in the financial support available to them from public funds.

The cost of loans and the target group(s)

An important issue in relation to loans is the amount of payback that can be expected over the life of the loan and the inherent subsidy in the loan. This is dependent on three factors – the amount loaned, the repayment parameters and the lifetime earnings of the loan recipient. Larger loans take longer to repay if repayments are income contingent. Repayment parameters such as earnings threshold and the repayment rate on marginal income above the threshold can be adjusted to change the rate of repayment. Finally, the interest rate can be adjusted to increase the return on the initial loan payments. The critical factor is, however, the future income distribution for graduates and the development of that income distribution over the life of the loan.

To obtain reasonable estimates of the flow of loan repayments therefore requires detailed econometric analysis involving the modelling of graduates' future incomes. The Dearing Committee commissioned London Economics to undertake such an analysis for the loan elements of the Committee's main funding options for undergraduate HE students using a wide range of repayment parameters.[6]

There are two main elements of subsidy in publicly funded loans:

- the amount of outstanding loans forgiven on the death of the individual or at the end of the loan period for those individuals who have never earned enough to pay off the outstanding loan
- the interest rate subsidy from charging interest below the government's own cost of borrowing; this is the larger element since it applies to all loan recipients.

The Dearing Committee argued that it was only this element of expenditure on loans that should form part of public expenditure and not the full face value of the loans. Otherwise loans were treated for public expenditure purposes as no different from grants. The government accepted this argument. From 2000/01, as part of the more general adoption of resource accounting for public expenditure,[7] the recorded public expenditure for student loans is now the estimated subsidy and not the face value of the loans.

The estimate has been derived from further econometric modelling of graduate salaries. This work suggests that for full-time HE undergraduate students the subsidy is probably around 40% of the amount of the loan.

It is worth noting here that resource accounting brings forward the potential contribution of the flow of repayments that can in principle be ploughed back into higher education, be reinvested in other areas of education or be counted as savings.

Although there is a wide range of undergraduate programmes within higher education – sub-degree, degree, vocational, professional – this range is narrow compared with the range of provision in post-16 further education and training. Moreover, the continuing average positive rate of return to individuals from higher education and low levels of graduate unemployment suggests that there is a high probability that most graduates will repay their loans. Loans are available to all UK students on designated HE programmes and there is no credit assessment.

For most FE courses the individual rate of return is estimated to be lower than that for graduates, which would tend to suggest that other things being equal loans for FE students would have a higher element of public subsidy than those for HE students. Nevertheless, there would appear to be no reason in principle why income contingent loans could not be made available across the spectrum of further education and training, but especially where no public support is currently generally available. In practice it would be necessary to segment the market to undertake the kind of econometric analysis undertaken in respect of HE students and to analyse the alternative forms of support that might be available or preferable for different groups of students. The kind of segmentation required would be by level and age, and would distinguish those in further education from those undertaking work-based learning and training.

The purpose of loans

Until the recent introduction of means-tested loans for part-time undergraduates, student loans for HE students have only been available to support living costs. In particular, in introducing the contribution to tuition costs from 1998/9, the government did not offer loans to support that contribution. In practice, as demonstrated in Callender and Kemp (2000), based on a survey of students in the academic year 1998/9, 20% of full-time students used their loan or other resources to pay the assessed contribution to the fee. Apart from the prospect of increasing loan debt further, the government was also anxious to avoid extending loan facilities to EU students. Under reciprocity arrangements any tuition subsidy has to be available to students from other EU countries as well as home students. Maintenance support on the other hand is regarded as a benefit and not available to students from outside the UK. The difficulty of collecting loan repayments from EU nationals might well increase significantly the subsidy element of the loan and hence the resource cost.

The introduction of means-tested loans for part-time undergraduate students formally broadens the purpose of income contingent loans in higher education to include study costs. Indeed these loans are specifically not intended to meet living costs to avoid potential conflicts for those students in receipt of welfare benefits.

In principle, loans for students in post-16 further education and training could be available to support tuition costs (fees), the associated costs of study or in the case of full-time students to support living costs as for full-time undergraduates in higher education.

For 16–19 year olds in further education tuition is usually free. Adults in further education on the other hand are often charged fees since in principle under the methods used by the former FEFC the tuition subsidy was assumed to be only 75% of the cost. There have, however, been arrangements in place to remit fees for unemployed students and students from certain other low-income groups, and some colleges have subsidised fees more generally. Where fees are charged by publicly funded colleges the fees are usually modest, although there may also be significant variations between colleges for similar programmes. For students on release from work-based training, the employer may pay the fee. The scope for using loans to support fees charged by publicly funded FE colleges may well, therefore, be modest, but the issue of offering loans to EU students would be much less significant than in higher education.

It is possible that the position on fee levels may change since the new Learning and Skills Council (LSC) is reviewing its funding method, including the balance between its subsidy and the assumed fee for different types of programme.

Private providers charge fees that are often substantially higher than in FE colleges. For example, fees in excess of £6000 are commonly charged for the vendor-specific IT programmes. Public loan support towards fees for individuals wanting to undertake such programmes might be made available as a way of widening the range of providers in receipt of public subsidy as the LSC is committed to do. On the other hand, CDLs are probably a more appropriate vehicle for providing financial support for those individuals undertaking these programmes which offer very high returns.

The model of loan support for associated learning costs for part-time undergraduate students in higher education would appear to be a good one for providing similar support for part-time post-19 further education and training students. There are already in place some grant schemes to help individuals with some of these costs, such as childcare and transport, but these are not universal. Loans could be a way of making sure such support was generally available.

Loans to support living costs could also be extended to cover post-19 FE students studying full-time. Indeed, students on Level 3 programmes studying full-time in FE colleges may find themselves sharing modules with those studying for HNDs or foundation degrees who are eligible for HE maintenance loans, and may begin to ask why they are not eligible for such loans.

Any decision about extending maintenance loans to some or all post-19 FE students would have to be seen in the context of the possible introduction of means-tested Adult EMAs. The current extension of the maintenance grant support for students from the poorest families in higher education is of interest in this respect.

The level of loan debt and the impact of debt aversion on participation

The principal sources of information about the relationship between loan take-up and circumstances of HE students come from the surveys of student income and expenditure relating to the academic year 1995/6 (Callender and Kempson 1996) and relating to 1998/9 (Callender and Kemp 2000). Although these two studies offer some opportunity to assess the impact of the changes introduced in 1998/9, the changes were still not fully in place. The 1995/6 data were analysed further by Payne and Callender (1997) in *Student loans: who borrows and why?* This showed in particular that students from the lowest income backgrounds, as measured by the level of their mandatory grant, were more likely to take out a loan than those from higher income backgrounds and that Asian students were least likely to take out loans. In 1995/6 the average student loan debt was still relatively modest, but with the changes introduced from 1998/9 a student taking their full entitlement will graduate with a debt of some £12,000 and rather more if they have studied in London.

There is evidence (Forsyth and Furlong 2000) that parents are now very concerned about the level of debt that their children will incur from entering higher education. There is also evidence (Archer 2001; Connor *et al.* 2001) that young people from the lowest socio-economic groups are seeing the prospective student loan debt as a further disincentive to enter higher education. Part of this is a lack of family experience of long-term investment in a mortgage. Middle class students and their parents are more familiar with the concept. However, there is also evidence that some of the young people doubt that they personally will secure the kind of job that will pay the kind of salary to enable them to pay off the loan from participating in higher education.

Current concerns about the size of loan debt for HE students raise two separate issues in relation to the possible extension of such loans to students in further education and training. The first relates to progression from further education to higher education. If individuals incur significant student loan debt while they are taking courses that qualify them for entry to higher education, they may find the total loan debt that would be incurred from their FE and HE loans acts as a disincentive to progression.

The second issue is the participation of individuals from the lowest socio-economic groups. If they see loan debt as a disincentive to participation in higher education, they are even less likely to see the availability of a subsidised loan as an incentive to participation in further education. This serves to emphasise the point above about the importance of some grant support for those from the lowest socio-economic groups.

The administration of loans and the impact on employers

All publicly subsidised HE student loans, apart from CDLs, are administered within a common administrative framework. The loans are paid out to individuals by the Student Loans Company (SLC) and repayments are now collected under the Education (Student Loans) (Repayment) Regulations 2000 by the Inland Revenue and passed to the SLC who remains responsible for determining when a loan has been paid off. Under the collection arrangements the Inland Revenue will inform employers of their obligation to collect student loan deductions at 9% of gross income. Employers will record on payslips and the annual P60 the amounts of deductions made. For self-employed graduates the loan repayments will be collected through the self-assessment system.

Before the introduction of these new collection arrangements the DfEE and the Inland Revenue undertook a regulatory impact assessment. This showed that by 2015/16 over 2m graduates would be making repayments through the tax system of some £3bn per year. The estimated recurrent cost to employers of collecting these repayments was between £15m and £20m.

If income contingent loans are to be made available to FE students it would be sensible to use the same arrangements for the payment and collection of repayments already in place for HE loans. The Student Loans Company has already successively scaled up its operation to cater for the increasing take-up of loans and now to meet the demand for loans from part-time undergraduates. It would seem sensible to build on that experience in any extension of loans to FE students.

In using the systems now in place for the collection of loan repayments through the tax system it would be essential to minimise the additional cost of collection to employers by keeping the threshold for payments and the rate of payment the same as for HE loans. The regulatory impact assessment suggests that above a certain threshold the recurrent costs to employers of deducting loan repayments through the tax system are relatively insensitive to the total volume of deductions to be made. The extension of the system to include loan repayments from former FE students might therefore be expected to produce only a marginal increase in recurrent costs for employers.

Conclusions

The experience gained from the introduction of student loans in higher education suggests that such loans could serve as an effective means of providing public financial support for those in post-16 further education and training. In particular loans could be helpful where there is currently little public support available, as for most post-19 students studying for Level 2 or Level 3 qualifications. Since the majority of such students study part-time, the model of a means-tested loan to support study costs as now available for part-time undergraduates might be the most appropriate model in further education.

In offering loans to students studying for qualifications that provide entry to higher education it would be important to consider the possible impact on individuals having both an FE and an HE loan and the potential magnitude of the loan debt.

By and large the rate of return to the individual from undertaking FE qualifications is lower than that from HE qualifications. This will mean that the flow of repayments from FE loans will be slower and this will produce a larger public subsidy in the loans to FE students than that in the loans to HE students. The resource cost will therefore be higher, although still below the alternative of providing the same amount of grant support.

If loans are to be extended to students in post-16 further education and training it would be sensible to make use of the arrangements now in place for the administration of HE loans.

Notes

1 Estimates prepared by the DfEE for the Dearing Committee in 1996 suggested that the individual rate of return from studying a degree was between 11 and 14% and the social rate of return was between 7 and 9%. Work continues to review these figures and to monitor changes over time.

2 Interest was charged from the time the loan was taken out at the rate of inflation as measured by the retail price index.

3 The figures in this paragraph have been extracted from Payne and Callender (1997) and were themselves extracted from the DfEE's 1996 statistics.

4 The maximum loan for final-year students was less than for other students as the loan was not intended to cover the summer vacation. Loans for students not in their final year were deemed 'full-year' loans as they covered the summer vacation.

5 There is a wide range of publications about the Australian scheme, see, for example, Centre for Economic Policy Research (1996).

6 London Economics used a stochastic model in which graduate income profiles were built up from a large sample of individuals with allowances made for individuals moving in and out of the labour market. These analyses are presented in NCIHE report 12 (1997b).

7 Under resource accounting only the implied subsidies in publicly funded loans are included in the public accounts.

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Lifelong learning: who pays learns?

Ronnie Ogier

The whole subject of finance for students is one that immediately brings to the fore a range of strong emotions and feelings. For some of these there is a rationale, for others it is an emotional response to a rapidly changing environment where the need for a substantial increase in investment in education and training is counterbalanced by limited public resources. There is a clear agenda to raise and widen participation in active learning, whether this is through the full-time route or the part-time route, through institution-based learning or through home- or work-based learning. The government wishes to see an increase in the level of skills across the whole population.

Research indicates that there is a higher level of skills deficit within the disadvantaged groups than in the 'comfortable' middle classes. This factor itself is significant to the FE sector as FEFC data on widening participation indicates that college students are drawn disproportionately from the disadvantaged local authorities, with 25% of students living in the 15% most deprived wards. Similarly, 20% of all adult students are either unwaged or studying basic skills or ESOL courses. The conclusion that may be drawn from this is that adult learners in further education are drawn disproportionately from the lower and middle classes and lower income groups as well as from those with low levels of education attainment. A further complication to this scenario is that individuals drawn from such groups may not fully appreciate the value of learning to their personal progression and they experience greater difficulty in coping with the financial problems that accompany a return to learning.

Adults choosing to return to learning face a barrage of obstacles, some of which are financial or finance linked. Currently there is no single system for financial support for students in further education; there is a range of agencies offering different types and levels of support with different eligibility and means-testing criteria. Prospective students may receive information on individual learning accounts, Career Development Loans, European Social Funds, College Access Funds, residential bursaries and Childcare Funds; some are also invited to consider the specific additional support or bursaries that some colleges are able to offer. Not only is this confusing for the learners, it is also inefficient and costly for the providers – each provider collects a similar range of information about an individual and uses it to satisfy one set of criteria, but no single agency has the ability to take an overview of the total needs of the individual and make an assessment in the light of all the information. This is not only confusing but also time wasting for students, who come to college to study, not to complete application forms for financial support.

One key question that must be asked is who should pay for lifelong learning – is it those who get the direct benefit – the learners, or those who will get indirect benefit – employers and the state through the tax system? I believe that the responsibility for funding learning should be shared. The government has the responsibility for ensuring that children get an education, and for making available opportunities in further and higher education for those who can make use of them. Very substantial sums are invested by the public purse in the learning infrastructure. The government also makes certain learning opportunities available cost free to people with basic skills needs and those claiming certain benefits. In this case the investment is justified through the contribution that learning can make to combating social exclusion and making people more employable.

Employers have a responsibility to invest in learning to improve the effectiveness of their organisations. Standards such as Investors in People provide a framework that links organisational objectives and profitability to investment in learning. For substantial numbers of small firms, however, this case does not appear persuasive. Many prefer to invest directly in the skills they need through salaries or 'poaching' rather than through developing their staff.

Individuals also have a responsibility to invest in the learning they need to meet their own objectives, just as it is their responsibility to fund other aspects of their lives. For most learning in the public sector undertaken by adults in FE colleges the state provides a substantial hidden subsidy – the price of a course is likely to be around 25% of the cost of that course.

The government maintains its thrust to see more people learning, and more people investing in their own learning. According to the National Adult Learning Survey (La Valle and Blake 2001), adults already invest millions in their own learning each year. Yet this is a small amount set next to the more substantial investments by government and employers. Consideration of who should pay, or rather how the nation should pay, for lifelong learning, with particular reference to that undertaken in the FE sector, must be set in the context of the wider framework for developing lifelong learning. In focusing on the needs of adult learners this paper assumes that increasingly the government will take on the responsibility for all learning up to the age of 19 years.

It is important to get the scale of the issue in perspective. The vast majority of learners outside the HE sector are in employment and for many, though not all, their learning is related either to their current job or to a career path. For this group it is realistic to expect a contribution from the employer. There is another group who are in employment but their learning is not in work time, is not directly related to their current employment and is not supported by their employer. Many learners are in part-time employment and part-time learning, seeking to improve their individual employability by gaining new skills and qualifications. For this group the employer is unlikely to make a contribution to their learning and it is possible that the cost of learning itself could give rise to financial strain on the household. These learners may start but may not continue with their learning as a direct result of the financial strain on the household. Finally, there are many learners who are not in any form of employment and so are totally dependent on others or their own means to support their learning. Each of these groups will have a different pattern of learning, different characteristics and different needs.

The costs facing individual learners will show as much variation as the learners themselves; however, it is usual that adult learners will have to fund housing and living costs in addition to any course-related expenses such as tuition and examination fees, books, equipment and materials, transport and, for a significant minority, childcare expenses. A recent report, *The hardship of learning* (Callender 1999), indicates that the annual total expenditure for a full-time student on an FE course was very similar to a student on an HE course, and significantly above their income from all sources. This suggests a funding gap that has to be bridged.

It is clear that learning for most adults represents an investment and they can expect part of the return on that investment to be in terms of improved employment prospects and enhanced wages. Research undertaken by the National Skills Task Force (DfES 2000) examined a number of different groups and showed clearly the additional income that could be expected by an average adult for different types of qualification. In all cases there was an increase in wages following additional learning and the achievement of additional qualifications. One feature that became apparent was that the higher the level of qualification the higher the level of expected return. This would suggest that the level of subsidy below degree level should be significantly higher than that at degree level or above – exactly the opposite of the position that exists today. It is interesting to note that recent LSC statistics (LSC 2002) indicated that 58% of adult learners in FE study at Level 1 or Level 2 rather than at Level 3 or above, and among full-time learners the differential is even greater with 42% at Level 1 and 20% at Level 2.

For many adults the lack of adequate financial support prevents their returning to learn or continuing on a full-time course being an option. The alternative of part-time learning and part-time work can be equally difficult when there is also a home and family and, equally significant, a social life to maintain. The case for an improved system of financial support for adult learners in further education is made on the grounds of economic efficiency, coherence, participation and equity; however, this does not address the issue of how such an improved system could be funded.

If there is to be change, a spectrum of possibilities is available. These could include:

- entitlements to learning at nil cost to the individual
- subsidies to appropriate levels
- more part-time courses so that people can fund maintenance costs by continuing to work
- easy payment plans for course costs
- loans for learners.

The option of an entitlement to learning at nil cost to the individual may appear to be very attractive and the Learning and Skills Act 2000 has embedded a right for free tuition for all up to age 19. Equality of opportunity demands that this right should be extended to all and should not disadvantage those who learn at a slower rate or who have not achieved their potential during their time at school. However, the cost of such an entitlement would be considerable and it will be some time before it can be achieved in practice. The National Skills Task Force (DfES 2000) recommends an entitlement to free tuition to Level 3 for all adults up to 25 years of age and to Level 2 for all adults on a full-time full-year basis.

Subsidies on programmes to specified levels already exist in that students studying on basic skills courses do have their tuition fees remitted. Additionally, students in receipt of means-tested benefits receive a remission of their tuition fees. The other options suggested – part-time courses to permit students to continue to work to pay their fees and easy payment plans for course costs – both exist in colleges and go part way to easing what is an increasingly difficult problem to resolve.

However, all of these solutions consider only the costs of the tuition fees; they do not recognise the full costs that the individual faces. Typically for full-time learners these costs might be over £3000 a year to meet living, housing, travel and direct costs associated with learning, with additional expenditure for dependants or childcare or other special circumstances. Expenses for part-time students could be estimated on a pro rata basis. Under the current system colleges are able to offer limited support through their Access Funds to meet part of these costs. However, the funds available permit the colleges to take only a small step towards resolving the problems for students. Additionally the 'real expenditure' is not fully considered in that there is no systematic approach taken to the actual or opportunity costs involved in the management time to set up, administer and account for the use of the funds, although there is partial recognition of this issue in the allocation of 5% of the total Access Fund grant for administration. In addition there is no nationally agreed framework for the distribution of the funds so there is a degree of inconsistency between colleges.

The development of a comprehensive student support system is an essential component in any drive to widen participation and raise the level of achievement throughout the adult population. Within such a system there must be some common themes to ensure equity and all support should:

- be provided for both tuition fees and maintenance
- be linked to individual circumstances
- be linked to the acquisition of recognised qualifications
- be available regardless of the mode of study.

Policies for supporting learners, however, must be seen in the wider context of the whole policy framework and philosophy for developing a culture of autonomous lifelong learners. Any system must be seen to:

- encourage autonomy in learning for each individual
- encourage individuals to accept the ultimate responsibility for their own learning.

This clearly opens up the debate as to the ways in which students can accept the financial responsibility for their own learning.

There is considerable antipathy towards loans for learning from within the FE sector. This is largely based on the perception that loans in higher education have been 'hugely unpopular' with student hardship and a reduction in student numbers being a direct result of the introduction of loans. There is anecdotal evidence that students, in particular mature students, are unwilling to take on loans for learning as this is outside their experience. It is also clear that students from Muslim communities will not take up a loan to learn as this is forbidden by their religion and outside their culture. There is a valid argument about an aversion to debt among certain social and ethnic groups backed up by the uncertainty about the increased level of earnings as a direct result of improved skills and knowledge.

This is confirmed by the fact that lower level qualifications such as Levels 1 and 2 will increase employability but will not show the same return as a qualification from Level 3 and above. This means that any purely loan-based scheme would place a greater financial burden on those studying at lower levels, would act as a disincentive to taking the first step on the ladder of lifelong learning, and would reduce the impact of widening participation and increase the likelihood of delayed repayments or non-repayment.

It has been suggested that some of the 'drop out' from HE courses has been as a result of increased pressure from debt, but to date there is insufficient evidence to confirm this. Again there is no firm evidence to indicate that the loan system has reduced the need for HE students to undertake part-time work; indeed, it is argued that the loan system has in fact increased the need for part-time employment. Within the FE sector the use of loans has to date been very limited and informal resulting in difficulties in getting the loan repaid.

Whatever the issues raised by the experience of loans in the HE sector, action is needed if the vision of widening and deepening participation in post-16 learning and the development of the lifelong learning culture set out in *The learning age* (DfEE 1998), *Learning to succeed* (DfEE 1999) and other government statements is to be realised. For most individuals learning is an investment and the individual will gain from that investment. Under such circumstances it is logical to anticipate that the individual will be willing to contribute to that investment, and a system needs to be considered that will enable that contribution to be made in a way that is acceptable to the individual. However, it is important to bear in mind that the balance of return is skewed considerably towards the higher levels of qualification, so any system must be able to recognise and compensate for such differentials.

In addition, it should be remembered that the cost of learning does not stop at tuition fees; there are many essentials, both learning related and more general living expenses, required to ensure a person is able to start on a programme and continue to study to gain their qualification. Any system should be able to recognise the different characteristics of learners and respond to these. The practical elements requiring support for a programme of learning – books, materials, travel, childcare etc – will be the same for a person in employment as for another person who is self-supporting, and if a system is to be equitable then the response must match the need. Although it would be desirable to develop an entitlement to publicly funded learning for all up to Level 3, the reality is that the costs of such a development would be high and it could not be achieved for some considerable time.

All these considerations point towards a mixed system of grants and loans to cover all the costs related to a learning episode. Fees should be removed for all learners studying up to Level 2 on a full-time, full-year basis. For those outside this group, and others covered by national fee remission policies, loans should be available to cover tuition fees on courses at Level 3 and above. To support this there should be a means-tested grant for course and living expenses, coupled with a top-up loan to a maximum level. Individuals should be able to repay this interest-free loan either by income contingent deductions through the tax system or via their employer. Assistance for dependants and childcare should be grant-based and assessed separately. All forms of support to independent learners should be available regardless of mode of study, with means-testing ensuring that they are targeted at the most needy.

For those in employment the employer should be expected to fund training and the associated costs where it is of relevance to immediate or future business needs.

It seems logical that a mechanism such as individual learning accounts could be used as the basis for this scheme, extending existing procedures for grant and tax relief into an integrated grant–loan–tax relief product that could be tailored to the needs of the individual in relation to the qualification they were seeking to achieve. A change to an integrated grant–loan–tax relief system would empower learners to make choices in relation to their study to suit their individual needs. This would in turn shift the balance between the supply side, funding learning providers, and the demand side, supporting the learners, so that individual demand for learning could become a key driver of quality. It would be possible to envisage a time when funding was directed to learners, through credits to their individual learning account, with larger credits going to those in the greatest need, but less money going directly to institutions.

The approaches outlined above would bring about a radical change in post-16 education below higher education, but could provide the opportunity to remove the financial barriers to those wishing to return to learning and so assist in widening participation. Considerable effort would need to be made in establishing a system that provided the support in a timely manner and that was accessible to those in greatest need. Time and effort would need to be put into providing specialist advice, at appropriate levels of understanding, to prospective students on how to fund their learning. This would require specialist expertise locally administered using nationally agreed criteria and procedures, working closely with the adult guidance and provider networks. Although it would be feasible to administer a loan and grant assessment and payment function centrally there would still be a need for a localised, smaller scale, financial support system to respond to hardship or similar circumstances, administered through the training providers. One significant aspect of such changes from the current system would be to separate the educational process from financial consideration. It should provide a situation where the learning process is given appropriate financial support in a consistent manner and in response to the needs of the individual learner.

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Some thoughts on Career Development Loans

Chris Quarrie

Should you wish to apply for a Career Development Loan (CDL) you will read the following introduction in the application pack:

Since they were launched in 1988 Career Development Loans (CDLs) have helped tens of thousands of people to give their careers a lift. Men and women from a wide range of educational and employment backgrounds – employed, self-employed and unemployed – have benefited from the opportunity to help them invest in training or retraining. Some have used a CDL to open the door to a whole new career. For others it has meant additional qualifications and improved prospects within their chosen field. So whatever your ambitions, a Career Development Loan can be the key to improving your working life, transforming your career prospects and unlocking a whole new future.

This contribution to the debate on loans for lifelong learning will examine these claims and seek to establish whether CDLs need to be updated and whether they could / should have a place in any new funding model.

But what is a Career Development Loan?

A CDL is a deferred, unsecured, fixed-rate repayment bank loan that has been designed to help an individual aged over 18 at the time of application to pay for vocational education or training. The individual can borrow between £300 and £8000 to help towards the funding of up to 2 years of training plus (if relevant) up to 1 year of practical work experience where it forms part of the course. Courses can be full-time, part-time, open, flexible or distance learning. The costs associated with accreditation of prior learning can also be considered. The DfES pays the interest on the loan while the individual is undertaking training and for a minimum period (normally 1 month) after training has been completed. If the course finishes early the 1 month 'holiday' starts from course completion. The loan is repaid at a fixed rate of interest – a rate fixed by each of the four banks involved.[1] APRs currently vary from 5.8 to 14.5%. An individual in employment is entitled to 80% of the cost of the course and an unemployed[2] applicant up to 100% provided that their application has been endorsed by their local careers service. To assist applicants, there is a CDL information line on 0800 585 505 and general information about the scheme is available on the CDL website, which is an element of www.lifelonglearning.co.uk. Providers of courses must be registered with the DfES.

The banks are charged with two functions. The first is to determine eligibility under the rules and the second is to ensure, as far as is practicable, that an individual does not end up even further in debt as the result of making a poor learning choice, or selecting a vocation which has only limited potential for employment. Importantly, the banks may be reluctant to agree a loan to an individual with a poor credit history. They have the absolute right to refuse a CDL, notwithstanding that an individual may be eligible for a loan and be accepted on to a course. An individual who is claiming state benefits may have their entitlement affected; however, there is flexibility within the rules for a CDL to cover living expenses[3] for those undertaking full-time courses.

How successful have they been?

In the 13 years that they have been in existence, CDLs have enabled over 150,000 individuals to start the transition to a new career at a lending value of £487m. The average value of each loan is currently around £3700, just under half of the total available. For applicants, the overwhelming incentive has been the ability of the loan to provide the wherewithal to start a particular course at an opportune time. Over 80% of the successful applicants report that without a CDL they would not have undertaken training. There have been over twice as many male applicants as female[4] and their ages have ranged across the spectrum. Relatively few of them have been registered unemployed (13.44%) and most (72%) have undertaken courses that should lead to a job with higher skill levels. The various IT support courses have been the most popular (or rather the most frequently approved), but whether this is a genuine indication of the overall enthusiasm of applicants for this type of course, or a reflection of the banks' assessment of the better employment prospects in the sector, is impossible to determine. At under 20,000 loans on average for each year they have been available,[5] CDLs have fallen far short of their potential. It is open to conjecture that this is a reflection of the requirement, rather than a judgement on the process.

Do Career Development Loans need to change?

Superficially then, the scheme has been a qualified success, but the above statistics hide some worrying anomalies. To examine these it is necessary to question the overall aim of having a CDL scheme. If it is only to be a workforce development scheme that enables those who already have a job/career to change to a new job/career, then the present scheme can be seen as conforming to a re-skilling agenda. And in this case the current format and rules for CDLs are probably adequate though not optimum. However, it is arguable that a CDL scheme should also be socially inclusive, and under this definition the current 13-year experiment has been a significant failure. Given a political aim to provide a mechanism by which individuals may rejoin the labour market with skills that meet the labour market requirements of the area in which they live and/or with the sector-specific knowledge that will ensure long-term employability, there need to be some fundamental changes. If loans are to be an intrinsic element of learning for the future, their aggregate needs to be part of a comprehensive package covering the whole spectrum of lifelong learning – from the cradle to the grave – and each individual product needs to be a scheme which can both stand alone and also be seen to be a part of the wider agenda.

If it is accepted that the funding of a lifelong learning package should include a cash element, a borrowing element and a virtual element, then all of the schemes that are included in the borrowing element should conform to a common ideology and have common core mechanisms. Anything less risks confusion, dissatisfaction and ultimately the potential loss of an individual's motivation to continue. Central to this core mechanism is the requirement for information advice and guidance (IAG).

It is axiomatic that any grant or loan from the public purse should be spent cost-effectively, and where an individual is to be supported from the public purse, anything less amounts to a dereliction of responsibility. IAG should be at the core of all lifelong learning programmes and is, if anything, even more important if an individual is to undertake an expensive course with the potential to make a substantial difference to their life. But IAG means different things to different people and it is therefore necessary that a common (and new) agreed definition is included at the core of all lifelong learning agendas.

So what is the information advice and guidance requirement for adults?

Information

Currently this is the responsibility of Learndirect, who have let a contract to a consortium[6] for the national gathering of all learning information and its promulgation either through the freephone number (0800 100 900) or the website (www.learndirect.co.uk). It provides raw learning information of variable usefulness depending on the quality of the provider of the learning experience and the quality of the course on offer. In either case the learner is frequently in need of advice as to which course is right for them.

Advice

This has traditionally been interpreted as careers advice and has been the province of the Careers Service which has provided, for adults, a service which is not dissimilar to the service provided to their youth programmes. It includes psychometric testing and personality profiling with the clear remit of giving advice on career choices. But this is very different from the concept of adult guidance.

Guidance

Currently the Cinderella of the adult IAG service and an area which until recently was not included in government funding support, guidance is the growth area of sunrise politics and is attracting a lot of attention. But here too there are significant differences of opinion on how comprehensive guidance should be for adults. However, there is a broad agreement of what should be on offer to the individual. Guidance should include:

- **financial guidance**. A detailed appreciation of the effect of any loan on the individual's financial situation, together with risk analysis should personal circumstances change – and options for various financial contingencies.
- **sector guidance**. The ability to have relevant sector-specific advice on all aspects of a chosen course of action. This may vary from specialist course advice to employment options and the specific balance between academic and vocational qualifications for the individual and their circumstances. The providers in some sectors have a poor record of giving independent advice. Frequently an applicant will arrive to have their CDL endorsed with a provider-initiated application form and the promise of a job at the end of a course. And unfortunately, all too frequently the 'so-called' job is not full-time salaried employment (as implied in the promotional material) but a franchise with little prospect of the applicant earning a living wage, let alone paying back the CDL.
- **labour market intelligence**. There have been a tragic number of CDL applicants who have failed to understand the realities of the marketplace in the specialisation that they seek to pursue. All too frequently courses are undertaken for which there is no real need in the area where the learner lives. And occasionally a course is undertaken where there will never be any chance of employment because the demand for the skills which the course represents does not exist at the level where the learner is seeking employment. For the learner involved, the CDL has resulted in exacerbating an existing financial problem.
- **guidance on personal development**. It should be the aim of any lifelong learning programme that every individual is enabled to realise their potential. For this to be effective, a complete spectrum of activities need to be integrated to enable personal development to be optimised.

The net result of these four guidance elements is a new approach to adult guidance, one that is able to provide a comprehensive service, whether intrinsic or by referral to external expertise.

This, then, should be the guidance requirement for any government loan and, more specifically, the catalyst for the changes that need to be incorporated into the current CDL programme. Currently an individual often arrives with a CDL application for endorsement that is patently outside their capabilities. This results in a double problem. Should the individual be dissuaded from proceeding there is a strong probability that their negative experiences of learning and the learning process in their youth will be reinforced. Alternatively, if they are encouraged to proceed, the probability of subsequent failure is also likely to reinforce a negative learning image. It is the worst kind of double-failure case. The IAG element therefore needs to be an information gateway.

Career Development Loans and the information gateway

As discussed in the MC Consultancy Research Project (*Making ILAs work* – May 2001) there has been a growing understanding of the importance of the strategic role of IAG in underpinning any use of individual learning accounts, where the ILA = information gateway (cash element + borrowing element + virtual element + savings element). CDLs could be one of a number of constituents that make up the 'borrowing' element. In any discussion of CDLs it is necessary to recognise that IAG is intrinsic to the whole concept of a multifunctional learning account and an important part of the 'funding of learning' mechanism. This evolving understanding of the complexities of the funding process was not envisaged when CDLs were initiated and they now need to be evaluated against the formula to determine how they need to be modified to fit into a new approach to the funding of learning. Additionally, CDLs are capable of performing two functions. First they can operate as a funding mechanism for an individual stand-alone course and second as the method of financing a learning progression route. It is in this latter role that both the multifunctional learning account and the concept of lifelong learning as a change mechanism can best be seen. But, for either mechanism, change is required.

The importance of social inclusion

In any discussion of how CDLs need to change, the self-evident problem (discussed above) with the present system is the lack of the social inclusion dimension. The very group that nationally we should be helping through our lifelong learning programmes is, in general, barred from a CDL because of its lack of an adequate credit rating. Only about 30% of the CDL applications which were endorsed by Dorset TEC were subsequently awarded a loan. Nationally, if all the potential applicants (those who initially think of applying and then are subsequently put off by the warnings of financial prudence in the application form) are taken into account, this figure reduces to about 10% or so and this is a tragic loss of potential learners. It is also a loss that ensures that the government learning targets continue to be elusive. Resolution, however, is not easy. The most difficult problem, and one that has defied the best efforts of the DfEE during early discussions on the development of individual learning accounts,[7] has been the attitude of the financial institutions. Their requirement for probity is in direct conflict with the implicit risk that needs to be taken if a socially inclusive lifelong learning agenda is to be pursued. There is no easy alternative that does not increase the risk and it is difficult to see how CDLs can improve unless the banks are removed from the equation.

Elsewhere in this series of studies the concept of income contingent loans is advanced and it is not therefore necessary to address their pros and cons here, but plainly it is difficult to see how a programme such as CDLs can be made socially inclusive without such a concept being included. The financial institutions have maintained that they would not wish to be involved in the detail of the administration of loans and, if their attitude is still current, this results in the conclusion that a revised CDL with a socially inclusive element may need to involve a different financial services arrangement.

We re-emphasise that the present CDL system misses a very significant proportion of the total potential client group because of the role which the financial institutions are forced to adopt and that, unless there are some fundamental changes, CDLs can never realise their potential.

There is, perhaps, an argument for combining the financial services element of a CDL with the financial advice service offered as a part of adult IAG – but that is an argument for another day. Of more relevance to this discussion is the possible synergy (or alternatively the dichotomy) between a CDL and an income contingent loan.

Synergy or mutually exclusive?

There are three possible streams that could form a part of any 'borrowing' element for the funding of adult learning:

- a commercial loan
- a CDL
- or some new loan arrangement such as an income contingent loan (ICL).

It is likely that a commercial loan will be separate from any state-subsidised funding stream and therefore will be disregarded for comparison purposes, but CDLs could either be synergistic or mutually exclusive of any planned income contingent loan.

Career Development Loans as a comprehensive scheme

To be an effective stand-alone scheme CDLs would need to be comprehensive, in other words to cover both the workforce development and the social inclusion requirements. This implies a specific series of changes to ensure that those who are currently socially excluded through lack of skills, qualifications and/or credit history are included. It is difficult to imagine how this could be achieved under the current fiscal arrangements without involving the financial institutions in significant additional financial risk; the risk of a much higher default rate on loan repayment. On current experience – and the overriding requirement in the application process for an effective credit rating – it is not apparent that the banks would be content to accept this much greater degree of financial risk. Given this premise, it would seem inevitable that any change to a more socially inclusive product would require another body to assume the financial administration.

Alternatively it might be possible to introduce an income contingent element into the present CDL scheme and have, in effect, a two-tier scheme, the lower level of which would have a repayment mechanism which is income contingent and the upper level of which remains a deferred, unsecured, fixed-rate repayment bank loan. The difficulty would be in establishing boundaries between the two elements of the same scheme and it may be 'an administrative complexity too far' when viewed from the perspective of a potential learner. There is a *prima facie* case that homogeneity under the present financial provider system would be impossible. Arguably, the present CDL arrangements would need to be so changed to incorporate a socially inclusive agenda that they would effectively be a new product. But such a conclusion needs to be tested by further study.

Income contingent loans as a comprehensive scheme

The concept of CDLs arose from a study (MC Consultancy 2001) into saving for learning and the recognition that any comprehensive system for the funding of learning would need to include a borrowing element if the perceived obstacles to participation were to be removed. The model that evolved was based on student loans for higher education but was extended to be available for all adults. Social inclusion would be guaranteed, but the proposal has been to make the loan income contingent and this has meant that there is an income level (say £10,000 per year) above which the loan begins to be repaid. It is also proposed that the repayment rate would vary proportionately with the amount over £10,000 per year that the learner earns. For the unemployed, or those on low incomes, this model has significant advantages over the current CDL scheme, but for middle/higher income learners the presumption is that they will either self-finance their learning or take out a commercial loan. Unfortunately there is a very large body of employed learners who earn over the proposed income contingent figure but whose individual circumstances make it impossible to proceed with their learning without a loan. A commercial loan is seen as too high a cost and something akin to a CDL is therefore needed. As above, there are significant complexities if the two types of loan are combined. However, the premise for ICLs is that the banks would not be involved and therefore the inclusion of a CDL element would be possible, albeit with an increased degree of financial risk. But the overall complexity of trying to combine two disparate schemes probably precludes a simple model from emerging.

A possible synergy

Perhaps a better system might be to modify the CDL to include some important new aspects such as the proposed IAG component but to maintain it as a separate alternative to the ICL. Two different types of loan, each simple in themselves, but designed to be complementary, may have significant advantages. Part of the IAG process could include specific advice about the type of loan best suited to the applicant's individual circumstances.

And finally

CDLs have fulfilled an important role to date, but they have been only a qualified success, failing to achieve both the volumes and range of applicants that is their potential. Much of this is the product of the financial mechanisms involved and the overriding need for financial prudence. But there is also insufficient guidance to ensure that both the individual applicant and the state are gaining a maximum 'return on investment'. There is a growing need to review the effectiveness of CDLs and to revise their operation in three significant areas:

- the need to make them more socially inclusive
- the need to incorporate relevant information, advice and guidance
- the need to rationalise the role of the financial institutions.

It is possible that CDLs could change and include other mechanisms such as income contingency, but the complexity of administering a combination loan scheme may make this impractical. It is, however, worthy of further investigation.

It is also possible that CDLs should be terminated and replaced by an income contingent scheme, but the proposed repayment threshold for such a scheme would mean that many middle-income applicants could be significantly disadvantaged unless the repayment schedules are revised. Such a revision could lead to a complex repayment structure. Further work needs to be done on the ICL model to ensure that all potential learners have a system optimised for their circumstances.

Realistically it may prove necessary to have two separate loan schemes, a CDL scheme and an ICL scheme, which are complementary and therefore synergistic. Such a concept needs further investigation.

But CDLs should not remain with their present imperfections; evolutionary change is overdue.

Notes

1 Clydesdale Bank, The Co-operative Bank, The Royal Bank of Scotland and Barclays Bank.

2 Defined as being out of work for 3 months or more.

3 These can include travelling expenses and child-minding fees as well as accommodation.

4 In 2000/01 there were 68.27% male and 31.73% female applicants.

5 From 2762 in 1988/89 to 18,363 in 2000/01.

6 UCAS, Hot Courses and Sheffield University.

7 During the preliminary ILA discussions at the Windsor House Consultations.

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Loans for further education students

not the solution to the problem

Claire Callender

Introduction

The National Skills Task Force (DfEE 2000) recommended that there should be a national entitlement to financial support for adult learners to achieve an initial qualification at Level 2 and, for students under 25, up to Level 3. In particular, the Task Force suggested that this entitlement to free education and training should be 'enhanced where necessary by a system of income contingent loans for living, study and travel costs' (DfEE 2000, pages 34 and 40).

This paper will look at why there is a need for further financial support for adult learners. It will start by critically examining the new FE student financial policies introduced by New Labour since they came to office in 1997. It will show that adult learners have tended to miss out on New Labour's most significant reforms. Consequently, they need additional financial support. However, the paper will argue that loans are an inappropriate form of financial aid, particularly for FE students.

Financial support for students in further education

The Kennedy report *Learning works: widening participation in further education* in 1997 highlighted the limitations of the financial support system and stated that:

> *Financial and practical support for learners is crucial for widening participation ... The present system is neither fair nor transparent: a root and branch review is needed ... Some changes must be made immediately...*
>
> (Kennedy 1997, page 65)

Research commissioned for the Kennedy report identified in more depth the main problems with the student funding arrangements. It concluded that 'access to financial support for FE students is a lottery' (Herbert and Callender 1997). It highlighted the following issues:

- the absence of a comprehensive system of support, unlike full-time students in higher education
- student support funds were not necessarily distributed in accordance with notions of equity or need
- students had no entitlement to financial help because funds were allocated on a discretionary basis and depended on the decisions and policies of a range of gatekeepers; consequently, those in financial need, facing similar circumstances, were treated very differently depending upon their age, where they lived, what they studied and where they studied

- students were not guaranteed support before starting their course, and so could not rely on it as a source of income
- the demand for financial support outstripped the supply of funds.

Other research on FE student income, expenditure and debt showed that in 1998 the amount of student financial support available did not meet students' needs nor cover their costs of going to college. For instance, students received an average of £97 from the various sources of student support, but the average costs of participating in learning were £600 per year. In practice, only a quarter of all FE students received any form of student financial support (Callender 1999).

This study also showed the extent and nature of student hardship. Nearly a half of FE students experienced some financial hardship, only a third had any savings, and nearly one in ten were in debt. Students and their families took on substantial costs in order to participate in further education. While some could afford to do so, many could not and suffered real hardship. Students over the age of 19, especially those with children, were by far the most vulnerable financially (Callender 1999).

When New Labour came to power in 1997, they introduced a range of reforms to help fill the gaps in financial support for FE students. But have the changes addressed the problems identified, especially for older students? And why is there now discussion about the introduction of loans for older FE students?

The reform of student funding

The main features of New Labour's reforms of funding policies for FE students have been:

- the abolition of discretionary grants
- the introduction of Educational Maintenance Allowances (EMAs) for students aged 16–18
- Access Funds for students of all age groups
- support for childcare costs.[1]

Each of these will be examined in turn, but the analysis will focus on how these reforms affect older students. This is because the majority of FE students are over 19; they are part of the focus of widening participation policies and likely to be the beneficiaries of any new student loans.

It is important to note what is missing from this list of reforms. New Labour has yet to tackle fully the issue of transport costs, which is vital for students. Although transport costs are one of students' key areas of expenditure (Callender 1999), current policies are severely lacking (Mansell 1997). Indeed, at the time of writing, the whole issue is under review, the Social Exclusion Unit is exploring the issue, and some proposed changes are contained in the forthcoming Education Bill.

Similarly, up till now tuition fee remission policies have been omitted from the reform agenda. Yet, some argue that these are central to the overall reform of FE student funding. For instance, Fletcher (2001a) suggests that a rationalisation of tuition fee remission policies could free up resources for more generous financial support for certain student groups. But, there is a danger that such a policy would end up robbing Peter to pay Paul. Certainly a more holistic approach to student funding is desirable – an approach that includes an examination of tuition fees, support with the indirect costs of learning, and help with maintenance.

Another issue left off the agenda is the 16-hour rule for students receiving social security benefits. In essence, this restricts what courses they can undertake and acts as a disincentive to study, particularly among a group that is especially likely to profit from access to education and training. This policy feeds into the so-called 'benefit dependency culture' New Labour are trying so hard to eradicate. Moreover, the introduction of New Deal has led to yet other anomalies in how unemployed people engaged in education and training are treated by the benefit system.

Educational Maintenance Allowances

In September 1999, EMAs were introduced into 15 pilot local education authority areas, and later extended to a further 41 areas. The pilots sought to test the extent to which a financial incentive improves post-16 participation, retention and achievement rates in education.

EMAs are means-tested weekly allowances for 16–18 YEAR olds from low-income households who undertake a recognised full-time course at school or college. The full EMA (£30 or £40) is paid where a family's gross taxable income is less than £13,000. The allowance is reduced gradually where the family's income is between £13,000 and £30,000.[2] Payment can be made for a maximum of 2 years, although some young people with special educational needs are entitled to a longer period.

EMAs are a very welcome development. They represent a comprehensive source of financial support for students in the pilot areas. As a result of the standardised means-test, the *ad hoc* and discretionary elements associated with previous support (ie discretionary grants) have been eliminated. So, all eligible students (within a pilot area) are treated in the same way, irrespective of where they live and study. Similarly, the criteria for determining the amount of support awarded have been standardised (within a pilot area), again eliminating inequities associated with the previous funding regime.

EMAs , therefore, are a very important innovation. They have established, for the first time in FE student support, the principles of standardisation and entitlement. This makes them easy to target, transparent and relatively easy to understand.

Another vital feature of EMAs is that they recognise the role of financial incentives in widening participation. They have been designed specifically as a financial aid to improve initial access, retention and achievement levels. Their initial evaluation confirms their effectiveness in raising average participation rates in post-16 education, especially among young men and those in urban areas (Ashworth *et al.* 2001). EMAs also have had an impact on young people's attendance patterns and achievement levels, and have encouraged some to remain in education (Legard *et al.* 2001).

There are, however, some important drawbacks with EMAs. First of all, they have been restricted to students in the pilot areas, so not all 16–18 year olds are covered by this initiative. However, there is some speculation that EMAs may be extended eventually to all 16–18 year olds nationwide. So, at the time of writing, EMAs were not totally comprehensive in their coverage.

Arguably as important, EMAs completely exclude students aged 19 and over, despite the fact that they form the vast majority of FE students – around four out of five. Furthermore, EMAs are only payable to full-time students,

which again disadvantages older students. Around one in ten FE students aged 19 and over study full-time compared with around three-quarters of 16–18 year olds. Students aged 19 and over, who received discretionary grants in the past, miss out on this new provision yet they made up a third of all discretionary grant recipients. So some older students are likely to be worse off than they were before these reforms were introduced.

Moreover, an implicit assumption in the exclusion of older students is that they do not need financial incentives to study. Yet, older people are far less likely than younger people to have any qualifications (DfEE 2000). Also, older students are much more vulnerable financially than younger students. They are far more likely to be in debt and have no savings to fall back on – an issue we will discuss in more depth below (Callender 1999).

Thus a student's age, mode of study and where they live, rather than their financial need, remain key determinants of whether students receive EMAs.

Access Funds

Another major reform in 1998 was the expansion and extension of Access Funds.[3] Originally, Access Funds were restricted to students aged 19 and over, but later were extended to part-time students and 16–18 year olds.[4] The funds aim to provide discretionary support for students experiencing hardship or where financial considerations inhibit access to further education. The amount of money devoted to Access Funds has grown steadily from £11.54m allocated in 1998/9 to £62m in 2001/02 – most of which (63%) is for students aged 19 and over (LSC 2001a).

Access Funds are especially important to older students because they may be their sole source of financial support, now that discretionary grants have been abolished. Thus it is worth exploring Access Funds in some depth to see the extent to which older students benefit from them.

The reforms of Access Funds have addressed many of the earlier criticisms about their scope and eligibility. Recent research confirms that the colleges support the funds. It has re-affirmed their importance in improving student retention, especially among older students. College staff believe that relatively small sums of money are disproportionately effective when targeted at specific needs, at specific times (Maginn *et al.* 2001). Earlier research, conducted prior to the reforms in 1998, showed that college staff believed that Access Funds aided not only retention, but also achievement and progression by enabling students to undertake and complete their course. It also highlighted how colleges valued the fact that Access Funds were ring-fenced, and so could be devoted exclusively to helping students in financial need (Callender and Smith 1999).

New Labour's reforms, however, have not eradicated all the drawbacks associated with Access Funds. Around 6% of all FE students receive Access Funds. The majority (60%) of these are aged 19 and over, but certain groups appear to miss out, particularly older part-time students (Maginn *et al.* 2001). In turn, this raises broader issues about the adequacy of the total funding allocated to Access Funds, and the extent of unmet need. Unmet need is difficult to measure, but given that far more students are now eligible for Access Funds it is quite clear that not all who are eligible will receive Access Funds.

Among those given Access Funds, there remains a concern about the adequacy of the award received. Preliminary research findings suggest that the average award in 1999/2000 was £238 among students in FE colleges (Maginn *et al.* 2001). Other sources suggest that in 1999/2000 the average Access Fund award was £138 for students aged 19+ and £161 for those aged 16–18 (LSC 2001b). These awards do not meet students' average participation costs, namely the costs of travel to and from college, books, equipment, materials, computers, and exam and tuition fees. In 1998, these amounted to an average of £590 for students aged 19 and over, and £488 for 16–18 year olds (Callender 1999).[5] Clearly, if Access Funds continue to be paid at this level, only a minority of students' total participation costs will be met via Access Funds, especially those of older students.

In turn, this raises other unresolved limitations to Access Funds. Students cannot rely on them as a source of funding, nor can they build them into their financial planning when considering enrolment. Potential students do not know in advance of their studies if they will receive help, nor how much they will be awarded. Although students can be given bursaries, the vast majority are not given them. For most students, therefore, there are no guarantees before they start studying that they will receive the funds, even if they meet the eligibility criteria.

There continues to be duplication and overlap between Access Funds and other sources of student support primarily because of the limitations associated with these other sources. For example, despite existing policies concerning tuition fee remission, in 1999/2000 a third of all Access Fund awards to students aged 19 and over were for fees, and the equivalent proportion for younger students was one in eight (LSC 2001b). It is a somewhat strange policy whereby monies from the government allocated to colleges to help their students, end up back in colleges' pockets.

Further issues, left untouched by New Labour's reforms, are the significant problems associated with this particular funding mechanism. Unlike EMAs, notions of entitlement and standardisation have not been built into the re-vamped Access Funds. Access Funds continue to be discretionary, and thus difficult to target. Consequently, inconsistencies in the system remain in terms of who receives funds, how much they receive, and how the funds are distributed by colleges.

A study of FE colleges in 1998, before the recent reforms, showed that the way colleges delivered Access Funds and allocated funds varied from one college to another. As important, the allocation criteria colleges adopted were not always transparent or rigorous. Some colleges used very broad criteria. Most prioritised students in financial hardship or on low incomes, but limited the sums allocated to them (Callender and Smith 1999). More worrying are the findings from ongoing research, which raise very similar issues (Maginn *et al.* 2001). This research has found considerable variation between colleges in terms of which student groups, or needs, colleges prioritised. This was because of the discretionary nature of this funding mechanism. Allocation procedures also varied enormously – some colleges spread the net of recipients, others narrowed the net. Some had *ad hoc* highly discretionary allocation mechanisms, others automated processes. Some had payment ceilings, others had no ceilings.

Allocating the funds in a fair and equitable manner remains an issue, as does the introduction of some type of means-testing. Even prior to the reforms, these were the most common difficulties among those colleges experiencing problems

with Access Funds (Callender and Smith 1999). However, the challenges now facing colleges are of a very different scale because of increases in the amount of Access Funds allocated to colleges and the more inclusive eligibility criteria. For instance, broad measures of low income are unlikely to be adequate allocation criteria for colleges in socially disadvantaged areas where the majority of their students now are eligible for Access Funds.

What is needed is some form of rationing and standardisation, which makes the funds easy to administer in a transparent and equitable way. Guidelines have been issued to colleges (LSC 2001A) but they have contributed to a highly bureaucratic system because of the need for an audit trail for all payments. Moreover, these guidelines cannot eradicate the discretionary nature of Access Funds. It remains up to individual colleges to decide how to distribute the funds, and to whom. Therefore, there are no guarantees that Access Funds will be distributed in accordance with notions of equity or need. Consequently, students in financial need, facing similar circumstances, continue to be treated very differently depending on the college they attend.

Childcare provision

Around a quarter of all FE students have children and nearly one in five has a child under five (Callender 1999). Until the recent reforms were introduced, the absence of affordable childcare was a barrier to participation. An estimated 2800 students dropped out each year because of childcare problems (Daycare Trust 1999). Childcare is also very expensive, consuming large proportions of students' income. For instance, in 1998, three in five student mothers with a child under 5 using childcare paid on average £925 over the academic year, while lone parents paid even more, £1031 (Callender 1999).

New Labour has radically reformed financial help with childcare costs within the FE sector. Childcare support used to be financed through a tariff within the FEFC's funding methods and through Access Funds, but now it is funded through ring-fenced child support funds, as well as Access Funds. This is a considerable improvement because the support goes directly to cover students' costs rather than subsidising childcare provision. Also the amount of funds devoted to childcare has increased substantially. In 2001/02 £30m were allocated, a rise of 20% on the previous year's allocation. The maximum childcare support award now is £4000 per child while the average payment is £1300 per child. Also the Learning and Skills Council have been fairly flexible about how students can use their funds, for instance they can be used for unregistered childcare.

The major problems associated with the new childcare funds are that they are discretionary, and the funds are finite. Students have no entitlement to childcare support, unlike students in higher education. Childcare support is subject to the same conditions as other learner support such as Access Funds. And, like Access Funds, childcare support has similar drawbacks, which will not be repeated again here. Ultimately, students cannot necessarily rely on the funds to meet their full childcare costs. Students in similar circumstances are likely to have different experiences depending on the eligibility conditions laid down by their particular college.

Enter student loans

The fact that New Labour thinking about introducing student loans for FE students is an acknowledgement that current funding arrangements are inadequate in meeting students' financial needs. The discussion above identifies why this is case, and the limitations of the current provision. It shows how the reforms, although welcome, have not overcome some of the key problems associated with student funding in further education outlined at the start of this paper. Particularly striking are the gaps in provision for older students. Consequently, older students are likely to continue to experience financial hardship and to be vulnerable financially.

It is assumed, therefore, that loans would be targeted at older rather than younger students. But loans are just one way of providing students with additional financial help, and there are other options. For this student group, in particular, they are inappropriate (Fletcher 2001b).

We will now explore why loans are unsuitable for older FE students, calling on the experience of student loans in higher education where appropriate. In the discussion, we have assumed that the loans would be similar to those available to full-time students in higher education. So, they would be partly means-tested, there would be a ceiling on the sums borrowed, repayments would be income contingent, and interest rates on the repayments would be in line with inflation.

The returns of further education

Student loans are a device for borrowing money against future earnings. Underpinning their rationale are notions about the economic and social returns of education. These ideas assume that students, as a result of their education, will benefit in terms of improved job prospects, better jobs and higher earnings. Therefore, students can expect a higher income over their lifetime compared with individuals without such an education. And so, according these economic principles, students can 'afford' to take out loans and to contribute to the costs of their education. Students, as rational economic actors, know they will be able to pay off their loans in the future. They know that their education is a worthwhile investment because it will produce a good return.

Measuring the actual returns of education is fraught with difficulties, and estimates on the returns vary widely. The most recent research on the returns from higher education suggests a 28% return for men and 25% for women (Dearden *et al.* 2000). In other words, men with a first degree can expect to earn 28% more than men without a degree.[6]

The economic returns on the qualifications usually undertaken by students in FE are much lower than for students with a degree. For instance, the returns on A-levels are 17% for men and 19% for women. Vocational qualifications have even lower returns than academic qualifications. So the returns on Level 3–5 NVQs are 6–9% for men and 1–5% for women; for City & Guilds Higher and Craft they are 4–7% for men while for ONC/OND they are 7–12% for men and 8% for women. However, lower-level NVQ and City & Guilds qualifications do not yield an economic return for either men or women (Dearden *et al.* 2000).

Students in further education, therefore, can expect limited returns on their qualifications, especially those undertaking vocational qualifications. This then is the first problem with loans for students in further education.

FE students are likely to reap only limited returns in contrast to HE students because of the qualifications they pursue, and the value the labour market places on such qualifications. The investment FE students make in their studies, in terms of the time and money, may not pay off in tangible benefits such as a higher income. The risks involved in taking out a student loan to finance their studies, therefore, would be much greater for FE students compared with most HE students.

FE students are aware of and understand this relationship between the returns of their education and loans. There is evidence that their attitudes towards loans are influenced by perceptions of the expected returns. For instance, in a survey of FE students in 1998, those who believed that they would benefit financially from going to college were twice as likely as those who did not think they would benefit financially to consider taking out a loan (50% compared with 25%) (Callender 1999).

Student debt

One of the most significant developments since the introduction of student loans in higher education has been the sharp rise both in the number of HE students in debt and in the level of their debt. In 1998/9, nearly nine out of ten HE students had outstanding debts compared with just over seven out of ten in 1995/6 (Callender and Kemp 2000). The move from maintenance grants to student loans resulted in a threefold increase in the level of student debt between 1995/6 and 1998/9 (Callender and Kemp 2000), and nearly a sixfold increase between 1992 and 2001 (Barclays 2001). By May 2001, students had debts averaging £5961 but anticipated owing up to £12,000 by the end of their studies (Barclays 2001). This is because more students are taking out student loans and borrowing more money both from the Student Loans Company and from other sources of commercial credit (Callender and Kemp 2000).

Analysis of the take-up of student loans in higher education (Callender and Kemp 2000) shows that those students most likely to be in debt, and to have the largest debts, are students from low-income families and lone parents. In other words, those who are disadvantaged before they enter higher education end up with the largest debts when they leave university. Without any changes in student support policies in higher education, low-income students' debt is likely to rise yet further, and to equal the average gross annual earnings of full-time manual workers. Will low-income students be able to jump over the psychological barrier of having to borrow more money than their parents may earn in a year?

There is also evidence that some HE students are debt averse. In 1998/9, nearly one in three students who had not taken out a student loan claimed that they did not need one. However, 56% of students who had not taken out a loan were without one because of their, or their family's, concerns about debt and borrowing. Students from the poorest backgrounds and those most under-represented in the student population – the very focus of widening participation policies – were most debt averse (Callender and Kemp 2000).

Ultimately, prospective students from low-income families may be deterred from entering higher education because of worries about escalating debt. And there is increasing evidence that this is the case, and that prospective students are deciding not to go to university because of financial concerns (Forsyth and Furlong 2000; Archer 2001; Connor *et al.* 2001).

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When students do decide to go to university, they often try to reduce their reliance on student loans. The strategies they adopt, however, often restrict their HE choices. For instance, debt-averse students often opt for financial security at the expense of cultural and human capital by enrolling in less advanced, vocationally orientated, short courses run at less prestigious institutions near their parental home (Forsyth and Furlong 2000; Knowles 2000; Farr 2001).

These students' debt aversion highlights the contradictory nature of the current student funding policies in higher education. The replacement of grants with loans may well be undermining New Labour's desire to widen participation in higher education (Callender 2001). And we have yet to see what other effects, if any, loans may have on student participation, completion and progression in higher education. The first cohort of HE students depending solely on student loans throughout their time at university will not graduate until summer 2002. So, we still have very limited knowledge about the longer-term impact of student loans in higher education.

New Labour has become increasingly aware of the deterrent effects of student loans in higher education. They are concerned that the current funding arrangements may undermine their goal of increasing participation in higher education to 50% by 2010. They now acknowledge that they have miscalculated the balance of contributions from the state and individual students in meeting the costs of studying. Consequently, at the time of writing, student financial support in higher education was under review.

It would be ironic if New Labour ignored the lessons learnt from student loans in higher education and introduced them into further education. The consequences for further education are likely to be more far reaching. Many more FE than HE students are from low-income backgrounds, and so more are likely to be debt averse. If substantial numbers of prospective FE students were deterred from participating in further education, this could have long-term consequences for the workforce and skill shortages.

The FE students most likely to be deterred are the focus of widening participation policies both in the FE and HE sectors. Not only could loans potentially deter entry into further education, but also they could affect progression from further education to higher education. Students who borrowed money for their further education may decide against higher education because of the prospects of taking on more debt and getting more heavily into debt. Yet, the continued expansion of higher education, and New Labour's achievement of their HE participation target, in part is predicated upon increasing participation rates among FE students from low-income families.

Finally, if loans were introduced in further education, some of the poorest students would have no option but to take them out. For a sizeable minority this would mean getting even more heavily into debt than some may be able to afford. For instance, 37% of FE students aged 19 and over had debts outstanding in 1998 (Callender 1999). Encouraging further borrowing could mean that some students would over-extend their borrowing capability – a widespread problem not restricted to students or prospective students (Office of Fair Trading 2001). To what extent should the state be fostering a culture unworried by debt? To what extent should it be encouraging a society unfettered by debt, especially among those who can least afford it and where the returns on their borrowing are limited?

Attitudes to loans

There is a dearth of information on FE students' attitudes to loans. In a survey of FE students conducted in 1998 (Callender 1999) students were asked: 'If you could get a loan to cover the costs of going to college, how likely is it that you would take one out?'. The survey found that only one in five students would take out a loan, if offered one. This minority was prepared to do so because they needed the money (55%), and because they believed that their future earnings would be high enough to cover the repayments (30%). However, the majority of FE students were not attracted to loans because they were debt averse. They were unwilling to take out a loan because they did not like borrowing money (36%), they were concerned about the repayments (34%), and they were concerned about getting into debt (28%). Students experiencing financial hardship were particularly likely to cite these reasons.

Older students were much less enthusiastic about loans than younger ones – 77% were unlikely to take out a loan compared with 68% of younger students. But the starkest differences were associated with students' views about the financial returns of their further education. Of those who thought that they would benefit in the longer term from going to college, half thought it very unlikely that they would take out a loan. Among those who were pessimistic about the financial benefits of college, three-quarters thought it very unlikely they would take out a loan (Callender 1999).

Another more indirect source of information about FE students' attitudes toward loans comes from data on the government's Career Development Loans (CDLs). These were devised to help people with the costs of undertaking vocational learning. They are unsecured deferred repayment bank loans offered through commercial banks, but their terms and conditions are far less generous than those of the current HE student loans.

The most recent study on the take-up of CDLs confirmed the findings of earlier studies. Most of the people using CDLs were young, well-educated, and well-qualified people – 41% were graduates (Wells and Murphy 2001). Over 30% of the courses undertaken by people receiving CDLs were for a postgraduate qualification, 10% for first degrees, and only 34% for vocational qualifications. So despite the fact that CDLs have been in existence since 1988, take-up remains low, especially in the FE sector. CDLs, therefore, have had little impact on the FE sector because of students' concerns about getting into debt. FE students are voting with their feet, and are not taking them out. So CDLs have failed to promote vocational training as originally planned; rather they have become a vehicle for funding postgraduate courses.

The way forward

It is clear that older FE students need more financial support and that New Labour's reforms of FE student funding have only partially met their needs. However, the idea that student loans can fill the gaps in provision for older students is flawed. Student loans are inappropriate for FE students because the social and economic returns of their qualifications are limited, they result in student debt (which potentially can deter participation and progression), and students do not favour them.

If student loans are not the answer to the problem, what is? New Labour has been very sensitive to the financial needs of younger learners. It has put in place an excellent innovative framework of financial support, namely EMAs. EMAs are based on progressive principles, and are redistributive in their effect. They are targeted at those with the greatest financial need, unlike student loans in higher education (Callender 2001).

Particularly significant is that EMAs have firmly established the principles of entitlement and standardisation within financial support for FE students. So students know in advance of their studies what they are eligible for, and what help they will receive. Colleges can feel free to advertise the availability of EMAs without worrying that they are falsely raising students' expectations. EMAs also are equitable and transparent. Consequently, they are relatively easy to administer. There is a clear balance between audit trails, accountability and accessibility because EMAs are not discretionary like most other learner funds. Finally, EMAs recognise the importance of financial incentives in widening participation. They have been designed specifically to improve initial access, retention and achievement levels, and have succeeded in fulfilling these objectives.

The challenge now is to extend this framework and the principles underpinning it to provision for older full- and part-time students who overall have the greatest financial needs. Such a strategy was proposed recently for FE students in Wales (Independent Investigation Group on Student Hardship and Funding in Wales 2001). Such a system can be sensitive to the needs of different students and localities without being discretionary. Only when this happens will student financial support stop being a lottery.

Notes

1 Other policies have been introduced, such as residential bursaries, but the number of students affected and sums involved are small compared with these other initiatives. For full details of all financial support see LSC (2001a).

2 Except in London where the upper limit is £20,000.

3 The following discussion focuses on Access Funds in further education and excludes any discussion of Schools Access Funds.

4 Non-UK nationals are still excluded, as are students in receipt of other support such as European Social Funds.

5 Note this expenditure excludes the cost of childcare.

6 There are a range of assumptions underpinning these ideas about the economic and social returns of higher education which cannot be discussed here. For instance, the returns vary among subgroups of students, which may make higher education a more risky investment for certain students – see Callender (2001) for a fuller discussion.

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Post-19 adult learning and higher education in England

funding principles and funding options

Mark Corney

Introduction

The funding of learning after compulsory schooling is central to post-16 education and training policy. The extent to which access to funding generates greater motivation to participate in full-time and part-time education and training after 16 is an intriguing research question and deserves further attention. Yet, the more modest objective for post-16 funding interventions is to ensure that **motivated** learners are not held back by financial constraints.

It is within the context of motivated learners with financial constraints that the perennial question of 'who pays' for post-16 education and training should be examined. Unfortunately, the issue is all too often addressed without even a cursory description of the current publicly funded system, and without an appreciation of the differences between tuition and maintenance / learner support arrangements for young people and adults, both full-time and part-time. Identifying a set of **principles** which should guide policy-makers in allocating scarce public resources seems to be left in the 'too difficult' tray.

Defining the territory

Essentially, the post-16 education and training system covers three policy areas: welfare-to-work, post-16 further education and training, and higher education. Putting welfare-to-work to one side, it is important to differentiate between funding arrangements for:

- 16–19 year olds – managed by the Learning and Skills Council (LSC) and LEAs
- adult learners outside higher education – managed by the LSC and LEAs
- higher education – managed by the Higher Education Funding Council for England (HEFCE) and the Student Loans Company.

The foundation learning system

The principles underpinning the funding of the foundation learning system for 16–19 year olds – and soon to be 14–19 year olds – are completely different from adult learning outside higher education, and higher education itself. Young people do not make contributions to the cost of tuition, although in the work-based route employers sometimes contribute to the cost of training. In terms of maintenance, Child Benefit is paid to the parents of young people in full-time academic and vocational education, and some students are entitled to means-tested Education Maintenance Allowances (EMAs). Young people entering work-based training ideally receive a wage or a non-means-tested training allowance.

The bottom-line policy objective for the foundation learning system is to ensure that every young person has achieved at least an initial Level 2 qualification. This is the minimum required for employability in the labour market. However, the aspiration is to maximise the proportion achieving an initial Level 3 qualification from the academic, vocational education and work-based routes, including increasing the 'pool' available to enter higher education. But the principle of **free** tuition costs to 16–19 year olds is not, and should not, be challenged. The key area of debate is on non-tuition arrangements. Options include widening eligibility for EMAs, creating equity with training allowances in the work-based route and looking again at access to Child Benefit beyond 16.

By contrast, the principle of free tuition costs does *not* apply to adult learners outside higher education, and learners within higher education. This suggests that *the proper comparison is not between the entire LSC system and entire HE system but between adult learning funded by the LSC and the HE system.*

The adult learning system

Table 1 describes the current system of mainstream student support for post-18/19 further and higher education and training in England, as well as sources of non-state support.

Adult further education and training

The regulated level of funding to providers for adult further education and training assumes a 75% fee contribution from the LSC and a 25% contribution from individuals and / or their employer. The exceptions are adult basic skills (assumed to be Level 1 in Table 1) and adults on welfare benefits – including the working families tax credit – where providers receive 100% of the funding from the LSC. For adults without fee remission, providers can waive the 25% contribution, make a 25% charge or charge what the market will bear. Even so, the actual charges to adult FE students are quite low in absolute terms, with a maximum rarely more than £250 per year.

The most important costs to adult FE students are non-tuition costs. For full-time students, publicly funded maintenance support is extremely limited. It is estimated that total maintenance support for adults is no more than £50m per year. The main source of maintenance support is thought to be the benefit system, especially for students who do not have to actively seek work. This might explain why less than 20% of adult learners in further education study full-time.

For part-time students, publicly funded learner support is minimal. They are expected to cover the costs of examination fees, travel, books and equipment. More than 80% of adult learners study part-time. Around a third of these are unemployed or economically inactive and so it is likely that the benefit system is the main source of learner support costs. Over half are in employment, and public policy assumes that private income via wages is sufficient to cover learner support costs.

Table 1 Current mainstream student support arrangements for adult learners in further and higher education in England by level of qualification

Level mode	Maintenance costs	Learner support costs	Tuition costs
Level 1			
Full-time	—	—	Free
Part-time	—	—	Free
Level 2			
Full-time	—	—	Free for some groups 25% contribution from individuals and 75% from LSC
Part-time	—	—	
Level 3			
Full-time	No support	—	Free for some groups 25% contribution from individuals and 75% from LSC
Part-time	No support	—	
Level 4			
Full-time	ICLs	Included within ICLs	Means-tested contribution of up to 25% of average course costs HEFCE and LEA funding
Part-time	Limited opportunity bursaries	ICLs	Students pay what the market will bear HEFCE funding to HE institutions
Non-state support	Current income Savings Commercial loans Employer funding		

Higher education and training

Full-time undergraduates in higher education in England represent 75% of all students, and around 70% of these are young full-time undergraduate students. Under the current system, HE institutions receive 75% of the regulated fee from HEFCE. The remaining 25% is paid either by LEAs, or the student, or a combination of both. Full-time undergraduate students make an up-front means-tested contribution of 25% of the average cost of tuition. About 50% pay no fees, 15% pay some fees and 35% pay the full fee of £1050.

The primary source of maintenance funding for full-time undergraduate HE students is income contingent loans (ICLs). The cash cost of ICLs in England and Wales in 2001/02 is estimated to be £2.1bn. The resource cost is quoted as £1bn, although private information suggests that it is between 30% and 40%. For a given departmental spending limit, this means that the DfES can increase up-front spending by £1bn under resource accounting so long as the Treasury is prepared to borrow the money from the markets. Nearly all of the £2.1bn cash allocation for ICLs is for full-time higher education. In England, ICLs are also supplemented by non-repayable maintenance grants but the total amount of funding is small.

Table 2 Potential student support arrangements for adult learners in further and higher education by achievement of initial level qualifications

	Living costs Learner allowances	Learner support Learner expenses	Tuition costs Personal fees
Potential			
Level 1			
Full-time	Means-tested Adult EMAs	Included within Adult EMAs	Free
Part-time	—	Means-tested Adult Learner Support Grants	Free
Level 2			
Full-time	Means-tested Adult EMAs	Included within Adult EMAs	Free
Part-time	—	Means-tested Adult Learner Support Grants	Free
Level 3			
Full-time	Means-tested Adult Learning Loans	Included within means-tested Adult Learning Loans	25% contribution as ICL, 75% from LSC
Part-time	—	Means-tested Adult Learning Loans	25% contribution as ICL, 75% from LSC
Current			
Level 4			
Full-time	ICLs; Limited opportunity bursaries	Included within ICLs	Means-tested contribution of up to 25% of average course costs HEFCE and LEA funding
Part-time	—	ICLs only	HE institutions charge what market will bear HEFCE funding
Non-state support	Current income Savings Commercial loans Employer funding		

For each part-time student, HE institutions receive funding from HEFCE. However, HE institutions can charge what the market will bear for part-time courses. Contributions to tuition fees can be paid by individuals themselves or employers on their behalf. Recently, the DfES has made ICLs available to part-time undergraduate students to cover learner support costs, such as travel, books and equipment. They are means-tested and worth £500 per year.

Overall assessment

Against this background, it is clear that the actual levels of tuition fees charged to learners in full-time and part-time higher education are higher than those for learners in full-time and part-time further education. More importantly, however, public support for maintenance and learner support is much higher in higher education (£2.1bn) than adult further education (around £50m). As a consequence, the policy debate has started to examine:

- maintenance funding for full-time adult learners and learner support funding for part-time adult learners outside higher education
- the relative balance between grants and loans for maintenance and learner support costs.

Political priorities

Rightly or wrongly, the policy agenda is determined by the words set out in political manifestos. There is no doubt that the most prominent commitment in the area of post-18/19 education and training in Labour's 2001 manifesto, *Ambitions for Britain* (Labour Party 2001), is '50% of young adults entering higher education' by 2010 (page 6). However, there is another manifesto commitment in this area, namely to 'tackle the financial barriers that prevent adults from studying in further education' (page 11).

Principles for allocating public resources to adult further and higher education

Yet, policy-makers do not have ready to hand a set of principles upon which to base their decisions on the allocation of public resources to adult further and higher education *together*. In the context of the publicly funded LSC/HEFCE system for adult learners, a useful starting point would be the 'initial qualification principle' and the 'individual financial rate of return principle'.

Principle 1 – the initial qualification principle

Essentially, the *primary call* on public funding should be directed at adults seeking to achieve their initial qualification at Level 1, Level 2, Level 3 and Level 4 rather than a second qualification at any of these levels. This would ensure, for example, that the bulk of public funding did not go to adults with an initial Level 4 to achieve a second Level 2, Level 3 or Level 4.

Principle 2 – the individual financial rate of return principle

In the context of the first principle, the second is as follows:

- a greater financial rate of return to adults achieving qualifications, then
- a lower level of public subsidy
- a greater emphasis on contributions to tuition fees rather than fee remission
- a greater emphasis on loans for tuition fee contributions and maintenance / learner support rather than non-repayable grants.

The remainder of this paper attempts to apply these principles to adult FE and HE policy. Yet, it is important to stress that the financial rate of return principle only applies to the adult learning system. The principles governing the foundation learning system are simply different.

Towards a comprehensive system of adult student support

Table 2 (on page 56) seeks to combine the initial qualification principle and the individual financial rate of return principle to generate a comprehensive system of support for adult learners in further and higher education. For illustrative purposes, the table assumes no change to arrangements in higher education in England.

Initial Level 1 and Level 2 qualifications

The financial rate of return for Level 1 qualifications is quite low. Hence, tuition is free to the individual. In terms of non-tuition costs, the case for grants rather than loans is unanswerable. Thus, adults in this group studying full-time should receive a means-tested Adult EMA, while those studying part-time should receive a means-tested Adult Learner Support Grant (ALSG). In practice, however, the number of adults wishing to study full-time to achieve a Level 1 qualification might be low, and the emphasis would be on ALSGs rather than Adult EMAs.

In many ways, the issues are also the same for adults studying for initial Level 2 qualifications. Tuition should be free, and Adult EMAs and ALSGs should be available for maintenance and learner support costs. Nevertheless, it might be the case that relatively more adults might want to study full-time to achieve, say, 5 GCSEs in a single year, and so Adult EMAs might become more important.

Initial Level 3 qualifications

For some qualifications, especially A-levels, the rates of return to individuals are quite high. This suggests that adults should contribute towards the cost of tuition, although it leaves open the issue of the level. The rate of return to Level 4 qualifications is higher than Level 3 qualifications, and present arrangements assume a means-tested contribution of 25% of the regulated fee for undergraduates. Assuming no change in higher education, there is no case for increasing contributions by adult learners to the LSC regulated fee.

Yet, this still leaves open the question of up-front versus deferred tuition fees. Experience in higher education suggests that up-front fees are perceived by some parents and students as a barrier to participation. Given that the policy objective in adult further education is to tackle financial barriers, deferred rather than up-front fees would be more appropriate. The conclusion, therefore, is that a system of means-tested learning loans should be available for adults seeking to achieve an initial Level 3 qualification.

In terms of non-tuition support, the rate of return principle suggests that the emphasis should be on loan support rather than grant support. Full-timers should receive means-tested maintenance loans and part-timers should receive means-tested learner support loans. Furthermore, the rate of return principle implies that loan arrangements should be *at least as generous* as loans for HE students.

Putting to one side the detailed workings of ICLs in higher education, there is a case for full-time adult learners in further education to receive a maintenance loan based on a 75% entitlement and 25% means-tested, and part-time adult learners in further education to receive a means-tested learner support loan of £500 a year.

Moving from nothing to something

Other contributors to this volume have argued that a combination of fee remission and grants rather than loans is the way ahead for full-time and part-time adult learners outside higher education. This must be true for adult learners seeking initial Level 1 and Level 2 qualifications. Yet, the case at Level 3 is less clear cut. It should not be forgotten that the availability of loans for tuition, maintenance and learner support for full-time and part-time students would represent a move from nothing to something compared with the current state of affairs. Moreover, spare public resources must be made available for adults without Level 1 and Level 2 qualifications rather than for those without Level 3.

Adult learning loans for initial Level 3 qualifications

The above analysis suggests that learning loans should be available for adults seeking to achieve initial Level 3 qualifications. A critical issue is the form that learning loans for initial Level 3 qualifications should take. At present, adult learners outside higher education have access to subsidised mortgage-style Career Development Loans (CDLs) while adult learners within higher education, both full-time and part-time, have access to means-tested ICLs. Of course, it is not true that every adult without an initial Level 3 qualification would choose an ICL as presently operating in higher education rather than a CDL. Yet, it is instructive to note that when the DfEE decided to offer loans for part-time HE students they took the form of ICLs rather than CDLs.

Income contingent loans for initial Level 3 and Level 4 qualifications

In terms of creating a seamless system of loan provision for initial Level 3 and 4 qualifications, there is a strong case for building on ICLs in higher education. Key features of ICLs in higher education are that:

- they cover maintenance and learner support costs rather than tuition costs
- different means-tests apply to maintenance-based ICLs for full-time students and learner-support-based ICLs for part-time students
- 25% of the value of the loan is means-tested and 75% is available as an entitlement
- the rate of interest is set at inflation and so the real rate of interest is zero
- interest applies from the moment the loan is taken out
- repayments are made on personal earnings over £10,000 per year
- borrowers repay 9p out of every £1 above earnings of £10,000
- there is no maximum earnings limit on which repayments are made
- employers collect repayments automatically via PAYE and the self-employed repay via the self-assessment system.

A key difference between present ICLs at Level 4 and the proposition made above for ICLs at Level 3 is that the latter cover tuition as well as maintenance / learner support. Yet, the rate of return principle implies that the financial arrangements for ICLs at Level 3 should be more generous than Level 4 qualifications. But policy-makers face restrictions on creating a more generous ICL for initial Level 3 qualifications compared with current arrangements for ICLs at Level 4. The earnings threshold and the repayment parameter must be common at Level 3 and Level 4 to minimise administration for employers. This means that making ICLs at Level 3 more generous than ICLs at Level 4 implies considering:

- introducing an interest rate holiday until the learner leaves or completes the qualification
- increasing the proportion of the entitlement to funding relative to means-tested funding for maintenance-based ICLs
- increasing the earnings limits for eligibility to maintenance and learner support ICLs for full-time and part-time students.

An integrated adult income contingent loan

All the above analysis indicates that an *integrated* ICL system would be the best way forward. Provided that the earnings threshold and the repayment parameter is common, loans under the income contingency principle can be made for Level 3 and Level 4 qualifications.

Research evidence on income contingent loans outside higher education

Contributors to this volume have rightly referred to the regular reviews of CDLs commissioned and published by the DfES, including provider and user attitudes. However, I am not aware of any reviews of large-scale provider and user attitudes on ICLs for adult learners outside higher education commissioned by the DfES.

Over the past 2 years, a series of organisations has sponsored the MC Consultancy research programme on 'Income contingent loans in post-16 further education and training'. To date, the programme has covered five specific projects examining different aspects of ICLs outside higher education. During the course of the research programme, 16 focus groups have been facilitated by MC Consultancy. A total of 144 participants took part in the focus groups, with one-third age 16–24 and two-thirds aged 25–54 (MC Consultancy 2001).

A key finding of the focus groups was that knowledge of the post-16 publicly funded education and training was low but improving. Participants who had participated in adult further education had some idea that they did not pay the full cost of tuition, and that part-time learners did not receive help with learner support costs. Parents with children or friends studying full-time at university had a good understanding of student finance, including ICLs.

On balance, most adults thought free tuition and grants for maintenance and learner support was the best approach. But there was a sense that public resources were scarce, and employers could not be relied on to fund broadly defined job-related training and development. In this context, participants felt the government should be generous to adults without basic skills and without O-levels /GCSEs.

Yet, there was a strongly held view that adults should contribute something towards higher level qualifications, and, on the basis of moving from nothing to something in terms of maintenance and learner support, a generous loan would be better than nothing.

Asked to devise a loan which would meet their needs, participants more or less defined the features of ICLs. When asked to consider the relative merits of ICLs and CDLs, the majority of participants thought the former was preferential to the latter. Indeed, there was a strongly held view that since ICLs were available to HE students they should be available to adult learners in general. Overall, the findings from three rounds of focus groups were that:

- for a significant proportion of adults motivated to learn but with a financial constraint, HE-style ICLs would place loan finance at the centre of their options for funding learning
- for a proportion of adults motivated to learn but with a financial constraint and a strong aversion to borrowing for goods and services in general as well as adult learning, the income contingency principle of HE-style loans might overcome the aversion to borrowing for adult learning.

Universal and targeted entitlements for income contingent loans at Level 3

If policy-makers decide that ICLs have a role to play in the achievement of initial Level 3 qualifications within the publicly funded system, careful consideration will need to be given to issue of universal entitlements or targeted entitlements. This affects whether ICLs are available to all adults of working age without an initial Level 3 or all adults in the workforce without an initial Level 3. Apart from public cost, a critical issue with universal entitlement is the impact on the labour supply. A stated aim of the Treasury and the new Department for Work and Pensions (DWP) is to apply the so-called 'employment principle' to groups who do not have to actively seek work, and encourage adults who can work to join the labour market. The availability of ICLs covering maintenance for adults wishing to study full-time might restrict rather than increase the future labour supply.

Alternatively, ICLs could be made available to adults in the workforce including the unemployed, employed and self-employed. Once again, however, both the Treasury and DWP might argue that ICLs for full-time students could result in some unemployed people, and employees in low-paid jobs, leaving the labour market. At best, therefore, the government might restrict ICLs to adults in work, and limit their coverage to part-time learners and learner support costs. That said, age-related policy considerations might apply. Possible options are described below.

- On the grounds of creating a learning society without compromising labour supply considerations, ICLs could be available to part-time adult learners aged 18 to 54 without a Level 3 qualification (with 54 being the current cut-off point for access to ICLs).
- On the grounds of underpinning the 50% HE 2010 target, ICLs could be available to both full-time and part-time adult learners aged 18–26 seeking to achieve a Level 3 qualification to increase the pool of Level 3 adults able to enter higher education.
- On the grounds of equity with the 50% HE 2010 target, ICLs could be made available to both full-time and part-time adult learners aged 18–30.

Final thoughts

This paper has attempted to position adult learning loans in general, and ICLs in particular, in the context of the current funding arrangements for adult further and higher education. It seems sensible to position ICLs for adults wishing to achieve initial Level 3 qualifications. However, there are a range of policy considerations in determining whether they are available to full-time and part-time adult learners and for all adults or adults aged 18–24 or 18–30, including effects on the labour supply and overall cost to the Treasury. While the resource cost of ICLs at Level 3 will be lower than at Level 4 (between 30% and 50%), a resource cost of between 40% and 60% means the Treasury would get something back compared to non-repayable grants or 100% fee remission.

Another important factor, however, is the review of HE funding. A higher earnings threshold and a lower repayment parameter for ICLs at Level 4 introduced on the basis of HE policy objectives would increase the resource cost of ICLs at Level 3 because these factors must be common. If the policy objectives in higher education are to increase contributions from students while simultaneously introducing ICLs at Level 3, the focus of attention shifts to introducing harsher means-tests for eligibility to ICLs at Level 4, and introducing a real rate of interest perhaps set at base. In terms of the latter, however, the financial rate of return principle does not imply a real rate of interest on ICLs for Level 3 and Level 4. To encourage progression to Level 4, and mitigate debt accumulation to some extent, the introduction of a real rate of interest should be restricted to Level 4 qualifications and vocational sub-degrees.

Finally, the debate on ICLs demonstrates how changes in adult higher education cut across potential changes in adult further education, and vice versa. This is simply a specific example of a common problem. The continuation of the pointless divide between adult further education and adult higher education is irrational and confusing. There is still time between now and 2010 to create a coherent adult learning system.

References

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Student loans in New Zealand

Sharon Biggar and Darren Butterworth

Introduction

The New Zealand (NZ) student loan programme provides a unique case study on the use of loans in post-secondary education. Introduced in 1992, the NZ Income Contingent Loan (ICL) scheme has attracted international attention for three main reasons.

- **It is comprehensive.** Access to loans is open to all post-secondary students – be they further or higher – regardless of the level of qualification, mode of study or parental income level.
- **It is designed to overcome capital market imperfections, not to provide additional student subsidies.** The system is designed to recover the government costs of financing the loans and, hence, charges a positive real rate of interest several points above the base rate.
- **It is a test case for the effect of debt on participation.** The high levels of debt accumulated by students are said to be changing post-education behaviour, but there is little evidence that it has had a significant impact on overall participation rates.

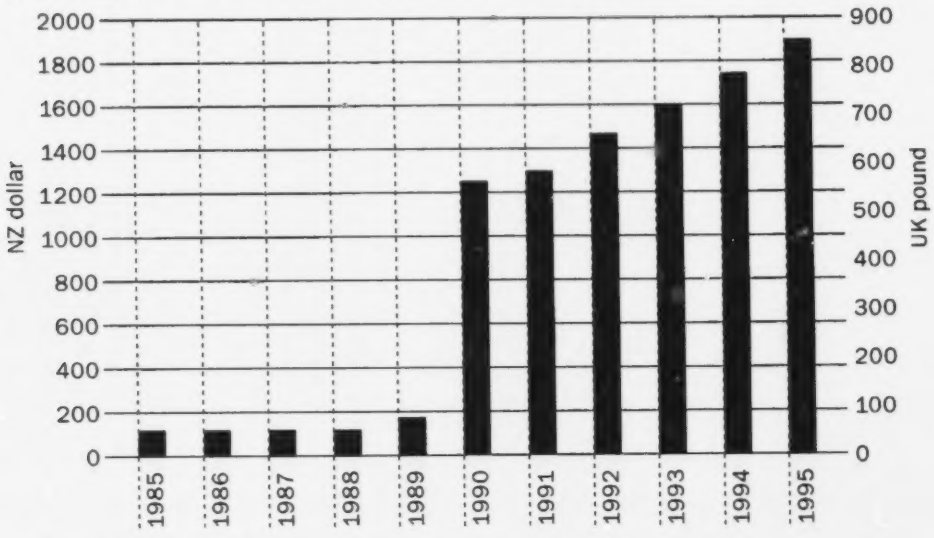
This paper gives a detailed description of the student loan scheme, and the effects of debt on student behaviour in New Zealand. The first section below provides a brief background to the system, a discussion of the eligibility requirements and an outline of the repayment criteria. The following section discusses the effects of the loan scheme on student choices prior to entering tertiary education and once education is complete, while the final section summarises the lessons of the NZ experience.

The New Zealand student loan programme

Prior to 1990, tertiary education[1] in New Zealand (which incorporates both higher and further education as defined in the UK) was predominantly state-financed, with all students receiving a grant and contributing only nominally to the costs of tuition. This situation became untenable in the late 1980s and early 1990s when student numbers grew rapidly – from approximately 40,000 full-time students in 1984 to almost 80,000 students in 1991.[2] This sharp expansion in the student population placed ever greater demands on government finances at a time when the political will to support tertiary education was waning.

The result of these changes to the social and political environment was the introduction of tuition fees for tertiary education students in 1990. Initially, fees were set at a flat rate of NZ$1250 (about £400) per student per year, but in 1992 the government removed restrictions on tuition fees in the hope that flexibility would create differentiation and competition among tertiary providers. Figure 1 shows the results for the average level of fees. Increases in fees were particularly dramatic for courses such as dentistry and medical studies.

Figure 1 Average New Zealand university fee per student per year



Source: Maani (1997)

The upward trend in course costs was also evident in the polytechnic sector, where much of NZ's further education takes place. The average tuition fee had been higher in the FE sector than in the HE sector during the 1980s (at around NZ$600 (£200) per year) so that the rate of increase was somewhat less than that at universities. Nevertheless, fees doubled in the early 1990s and average fees are now broadly similar across the tertiary sector (although the range of fees charged by FE providers is greater).

The up-front cost to students of both higher and further education thus increased significantly over a period of 3 years. Government policy on this issue changed so fast that it was not possible for students (or their parents) to save in advance for tuition fees. To offset the negative impact of fees on participation, a student loan scheme was introduced to enable students to defer the cost of their education until after graduation.

The stated objective of the NZ student loan programme was thus to facilitate participation in tertiary education by overcoming the immediate financial burden of fees. It was thought that the state had to provide the loans, as it was believed that students would be unable to borrow in the capital market due to their lack of assets and their short or non-existent credit histories. It is important to note, therefore, that the scheme was designed to overcome imperfections in the capital market, not to restore tuition subsidies to students.

Eligibility

Unlike the UK system, access to student loans in NZ is relatively unrestricted. To be eligible for a loan, the student must be a NZ citizen or permanent resident, and must be studying for not less than 12 weeks (or part-time for a year) at a recognised tertiary education provider. These lenient entitlement requirements means that ICLs are available to over 95% of full-time and part-time NZ students (NZ Ministry of Education 2000).

The loans cover the costs of tuition, provide NZ$2000 (£580) per year towards other course costs, and include a living cost entitlement of NZ$150 (£43.50) per week of the course (less any entitlements to student allowances – see below). Part-time students can get the tuition cost and course cost components of the loan, but not the living cost portion.

By contrast with the UK system, students' access to loans in NZ is not restricted on the basis of parental income. However, support to those on lower incomes may be provided in the form of grants. Students whose parents earn less than NZ$28,080–$50,750 (£8143–14,718) per year can obtain maintenance allowances on a sliding scale of up to NZ$150 (£43.50) per week. Students whose allowance entitlement is less than NZ$150 can take the remainder as a loan.

The financial system of support for students in NZ is thus much simpler than that offered in the UK, as shown in Tables 1 and 2 overleaf.

Table 1 The current system of public funding of post-16 learning in England: 2001/02

	Young people 16–18 (and 16–24 for the work-based route)			
	Post-16 further education and training		**Higher education – undergraduates**	
	Full-time	**Part-time**	**Full-time**	**Part-time**
Tuition				
Form of support	Free tuition	Free tuition	—	—
Funding body	LSC, LEAs	LSC		
Funding level	LSC – £2.4bn LEAs – £1.1bn	LSC: part of £2.4bn		
Maintenance				
Form of support	EMAs	—	—	—
Funding body	LEAs			
Funding level	£50m and increasing			
Form of support	Training allowances	—	—	—
Funding body	LSC			
Funding level	LSC: part of £2.4bn			
	Adults 19+ (25+ for the work-based route)			
	Post-16 further education and training		**Higher education – undergraduates**	
	Full-time	**Part-time**	**Full-time**	**Part-time**
Tuition				
Form of support	75% public subsidy and 25% up-front tuition fees depending upon circumstances and college discretion	75% public subsidy and 25% individual contribution depending upon circumstances and college discretion	75% public subsidy and a means-tested up-front tuition fee up to £1050	£750 per student with universities charging a market price
Funding body	LSC	LSC	HEFCE, LEAs	HEFCE
Funding level	LSC – £2.5bn	LSC – £2.5bn	HEFCE – £3.4bn LEAs – £0.4bn Graduate Apprenticeships £5m	HEFCE part of £3.4bn
Form of support	—	ILAs	—	—
Funding body		Capita/DfEE		
Funding level		£30m per year		
Maintenance				
Form of support	Access grants	—	ICLs worth £3800; 75% as of right and 25% means-tested	Means-tested ICLs worth up to £500 per year
Funding body	Colleges		SLC	SLC
Funding level	£50m		£2.1bn	£2m
Form of support	—	—	Limited opportunity bursaries of £2000 across the 3-year period	—
Funding body			LEAs	
Funding level			£30m	

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Table 2 The current system of public funding of tertiary education in NZ

	Living costs Maintenance	Non-living costs Learner expenses	Tuition costs Personal fees
Level 1			
Full-time	Means-tested grant or ICL	—	ICL for 100% of the tuition fee[3]
Part-time	—	Means-tested grant or ICL	ICL for 100% of the tuition fee
Level 2			
Full-time	Means-tested grant or ICL	—	ICL for 100% of the tuition fee
Part-time	—	Means-tested grant or ICL	ICL for 100% of the tuition fee
Level 3			
Full-time	Means-tested grant or ICL	—	ICL for 100% of the tuition fee
Part-time	—	Means-tested grant or ICL	ICL for 100% of the tuition fee
Level 4			
Full-time	Means-tested grant or ICL	—	ICL for 100% of the tuition fee
Part-time	—	Means-tested grant or ICL	ICL for 100% of the tuition fee

3 The NZ government provides a public subsidy per student to each institution. The level of this subsidy varies but it is usually between 75% and 95% of the total course cost. The remainder of the course cost is charged to the student as a tuition fee.

Source for tables 1 and 2: MC Consultancy

As Table 2 shows, NZ provides an ICL as the primary means of financial support for all levels of tertiary education, inclusive of Levels 1 to 5. Furthermore, the loan covers not only maintenance expenditures, but also tuition costs and incidental course costs. This is in direct contrast to the current system of public funding in England where loans are restricted to those in higher education studying towards a Level 4 qualification. The English system is thus not only more complicated, but also biased towards encouraging participation in HE courses.

Loan servicing conditions

From the start, it was intended that student borrowers would meet the costs of financing the NZ student loan scheme. As a result, the servicing conditions on the loan are somewhat more stringent than comparable schemes elsewhere, both in terms of interest and repayments.

Interest

The loan balance is subject, both during study and after graduation, to an interest rate charge that consists of three parts:

- a base rate of interest
- an inflation adjustment rate
- a 0.8% margin to cover the cost of administration.

The base interest rate on the loan is generally calculated to bring the total interest rate in line with the cost to government of borrowing for the student loan scheme, while the interest adjustment rate is set equal to the preceding year's inflation rate. The resulting interest rate – set at 7% since 2000 – is less than a student would pay in a market setting, but is significantly higher in both nominal and real terms than the zero real rate of interest HE students face in the UK.

Repayment

Repayment of the loan begins as soon as a graduate's income exceeds the income threshold of NZ$15,132 (£4388), and is geared to income. The repayment rate is set at 10% of all gross income between NZ$15,132 and NZ$50,000 (£4388–14,500) and 15% for any income earned over $50,000. Again this is significantly higher than that required of UK students where repayment is 9% of gross income across the board.

In 2000, the new Liberal government mitigated some of the harsher aspects of the loan servicing conditions for those on lower incomes. There were two material changes:

- **the inclusion of a full-interest write-off provision**. Since 2000, full-time, full-year students and low-income students (with income below NZ$24,596 (£7133)) are not required to pay interest on their loans while they are studying.
- **a change in the allocation of repayments**. Since 2000, any repayment made towards the student loan is 50% allocated to the principal (after adjustment for inflation). The remaining 50% of repayments are put towards the base interest portion of the interest charge. If the total repayments over a year are insufficient to cover this base interest charge, the remainder is written off.

The effect of these alterations to the scheme is that NZ now levies a zero real rate of interest on loans to low-income borrowers and full-time students (although these borrowers still receive an administration charge).

Summary of the key features of the NZ student loan scheme

NZ offers a comprehensive loan scheme that allows both FE and HE students to borrow for their tuition fees, course costs and maintenance expenditure. This loan scheme is available to all NZ students who are studying towards approved qualifications. Unlike UK students, therefore, NZ FE students – both full-time and part-time – can obtain ICLs to cover their tuition fees and other course costs, and full-time FE students are also eligible for loans for maintenance expenditures. The system of financial support that is in place for tertiary students in NZ is simple in structure and does not distort students' incentives between higher and further education. This is in direct contrast to the UK where funding bodies and method of support differ by educational level.

The repayment conditions of the loan are more stringent than those of most comparable international schemes, although recent policy changes have reduced the harsher aspects of these conditions for lower income students. Nevertheless, the NZ scheme operates a programme whose stated objective is to overcome capital market imperfections, and which charges a near-market rate of interest exceeding the zero real rate of interest offered to all students in the UK. A summary outlining the key features of the NZ loan scheme is provided as Table 3 (overleaf).

Table 3 Summary table on the features of the NZ student loan scheme

Loan characteristics	Key features of the student loan scheme
Start of programme	1992
Amount borrowed	Loan can cover all tuition fees + NZ$2000 (£580) course costs + (for full-time students) NZ$150 (£43.50) per week living expenses (less any entitlement to student allowances)
Means-testing	The loan is not means-tested. However, students whose parental income is below NZ$28,080–50,750 (£8143–14,718) may be eligible for part of the maintenance allowance of NZ$150 per week to be paid in the form of a grant
Eligibility	Students are eligible if they are: ■ citizens or permanent residents of NZ ■ studying full-time for not less than 12 weeks (or part-time for a full year) ■ studying at a registered tertiary education provider
Loan restrictions by type of qualification	The loan is available to all students who meet the conditions above. That is, students enrolled in courses at an equivalent grade to Levels 1–3 in the UK have access to ICL financing, as do students studying for a traditional HE qualification at Levels 4 or 5
Number of loans allowed	There is no restriction on the number of loans that an individual can withdraw. That is, an individual can undertake a second degree, or a postgraduate degree, and continue to be eligible for loan financing
Grace period	None, but interest is not accumulated while studying and there is a base interest write-off for those whose repayments fail to meet the cost of the base interest charge in a given year
Income threshold	Net income greater than NZ$15,132 (£4388)
Repayment amount	10 cents in every dollar earned over the repayment threshold and 15 cents in every dollar earned over NZ$50,000 (£14,500)
Interest rate	Base rate + inflation rate + 0.8% administration charge (the interest rate is 7% for 2001/02)
Collection method	Collection of the loan is the responsibility of the Inland Revenue and repayment is made through the tax system
Frequency of payment	Salary intervals (ie weekly or monthly). Self-employed borrowers are required to make payments in three instalments, and non-resident borrowers in quarterly instalments
Cancellation rules	The loan is cancelled upon death or bankruptcy

We now investigate the effects of rising debt on the behaviour of students both before and after education takes place.

Impact of student loans on behaviour before and after education

Student loans and participation in post-secondary education

Recent concern about the UK's student loan scheme has focused on the impact that student debt has on participation in higher education. The debate has centred particularly on debt aversion among lower socio-economic groups, and the impact that future debt has on their decision to participate in advanced education.

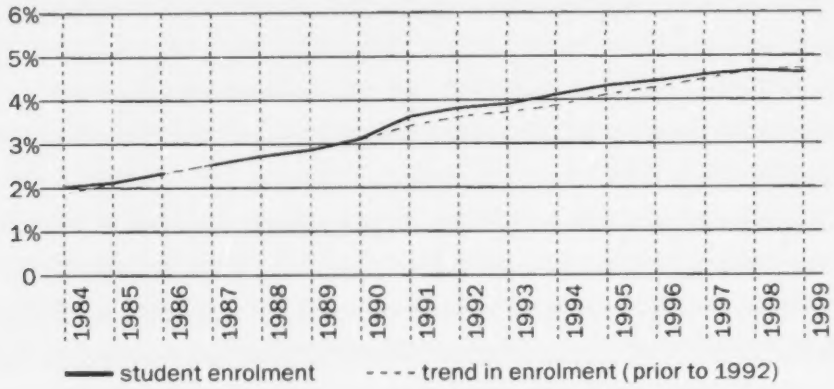
In NZ, by contrast, while some argue that the high levels of fees affect participation in tertiary education, the student loan system is seldom thought to have such an effect. Indeed, once fees were introduced in NZ, the loan system was seen as a way of facilitating participation in education by reducing the immediate financial barriers.

Participation rates in NZ have continued on an increasing trend that does not appear to have been curtailed by either the introduction of fees or loans. However, this is not conclusive evidence that NZ loans have had no negative effect on participation in tertiary education, for two main reasons.

- **There is no counterfactual.** It is not clear what would have happened to participation rates in NZ if loans had not been introduced – participation might have increased more, for example.
- **Loans were introduced concurrently with tuition fees.** Fees and loans both have effects on participation, so it is hard to isolate the particular impact of loans.

To get round the first difficulty, one can use the historic trend in tertiary education participation as a counterfactual. Had the fee and loan policy not changed, one would anticipate that the pre-1990 trend in student enrolment would have continued. In this view, deviations from the pre-1990 trend can be ascribed to these policy changes. Figure 2 shows the trend in student enrolment that existed prior to the introduction of fees and loans (dashed line), as well as actual enrolment (solid line). There has been a strong upward trend in student numbers since the mid-1980s and the 1990–2 policy changes did not disrupt this strong upward movement. Though there has been a slight weakening in the late 1990s, it is hard to attribute this to fees or loans as the policy change occurred a decade earlier.

Figure 2 Percentage of population enrolled in tertiary education in NZ (on a full-time equivalent basis)



Source: Student Loan Scheme Annual Report, Statistics New Zealand and CRA calculation

To address the second difficulty, one can analyse students' 'rates of return to tertiary education'[4] under a range of different scenarios, and relate them to participation. This analysis has more basis in economic theory, as it suggests that higher rates of return to education should lead to higher rates of participation.

Maani (1997) estimated the rates of return to tertiary education in NZ under a range of scenarios; from 'no fee', through 'up-front fees', to 'fees and loans'. The rates of return to tertiary education are highest under the 'no fee' scenario (10.2% for males and 9.5% for females), but they fall by less than 1% when fees are introduced (to 9.5% for males and 8.8% for females) and from there decrease only marginally once loans are included (to 9.2% for males and 8.4% for females). Maani notes that these results, which yield rates of return that are higher than comparable investments,[5] are consistent with the observation that participation rates have continued to increase since the introduction of fees and loans. Her analysis indicates that the loan system can be an effective means of student financing of tertiary education by allowing an inter-temporal shift in the payment of student fees.

This analysis assumes, however, that individuals take a rational view of their expected income over their lifetimes. Debt aversion, on the other hand, suggests that prospective students (particularly those from lower income groups) may overestimate the risk associated with borrowing for education and underestimate the potential return. *A priori*, we would expect this phenomenon to be more pronounced in NZ than it is in the UK, given the more stringent repayment conditions associated with the NZ ICL.

In spite of this there has been little research on this topic undertaken in NZ, although participation by differing ethnic groups has been studied. That research has found little evidence that those from Maori or Pacific Island backgrounds have reduced their level of participation in tertiary education. Indeed the number of Maori university students as a percentage of the total has increased from 3.7% in 1986 to 9% in 1996, and Pacific Island students from 2.0 to 2.9%. The comparable statistics for polytechnics are 7.2 to 13.6% for Maori students and 2.3 to 4.3% for Pacific Islanders.

Combined, these two ethnic groups comprise a significant proportion of the lower income households in NZ, so it is reasonable to assume that debt aversion has a limited impact or no impact at all on participation rates in NZ for lower socio-economic groups. However, this statement must be tempered with the caveat that no counterfactual is available so that it is not possible to isolate what participation rates by these groups would have been had loans not been introduced.

Student loans and post-education behaviour

As discussed, there is little reason to conclude that loans have had a significant impact on participation rates in tertiary education in NZ. For this reason – and in stark contrast to the UK – the debate in NZ is centred around the perverse effects that loans may have on *post*-education behaviour rather than the negative consequences that loans may have for participation. In particular, debate has most recently been focused on the increased incentives to emigrate that large debt burdens produce for graduates.

New Zealanders have traditionally left their home country in their early to mid twenties to travel, with most leaving for a 2-year period. It is argued, however, that the introduction of the loan has increased both the number of students emigrating and the length of time that they remain overseas. Indeed, the number of student borrowers leaving NZ has increased dramatically since 1995 from approximately 200 in that year to nearly 11,000 in 2000. Furthermore, a recent survey of those travelling found that only 25% intended returning within the traditional 2-year period, while 8% had no plans to return at all.[6]

This phenomenon is shown to be particularly pertinent for students who are studying to become doctors or dentists at universities where the fees for such courses are high.[7] In a recent survey four out of five (82%) medical students studying at the Christchurch School of Medicine said that they would leave NZ within 2 years of graduating, and over 50% do not have plans to return. Financial opportunities and the high levels of debt were the strongest reasons given by students for leaving, and there was a clear trend for students with higher debt levels to indicate that they would leave NZ earlier (*NZ Medical Journal* 2001). The study is as yet the only one of its kind, but it has provided the first clear evidence that students with large debts are more likely to leave New Zealand to pursue financial opportunities overseas.

The impact of large numbers of graduate emigrants on the overall economy remains uncertain. Glass and Choy (2000) have shown that NZ does not suffer from a 'brain drain' but, rather, that these young emigrants are replaced by equally skilled – although slightly older – immigrants, leaving the overall skill mix of the economy unaffected. Furthermore, the current increase in emigration may be a short-term phenomenon that is caused as much by the weak exchange rate as it is by rising levels of student debt. Departures to the UK, for example, have grown 175% since 1993, concurrent with a fall in the exchange rate from a high of 0.41 pence to the NZ dollar in 1992, to 0.29 pence today. Even with the higher costs of living in London, student loans can be repaid significantly faster when savings are denominated in pounds at a 3:1 exchange rate. This situation is unlikely to persist over the long run, however, and it is likely that the current levels of emigration will fall if the NZ exchange rate appreciates significantly.

Conclusion

In conclusion, the NZ ICL scheme has attracted international attention for three main reasons. These are:

- it is comprehensive
- it receives relatively little state subsidy
- there is little evidence to suggest that the loan programme has negatively affected participation in tertiary education.

Recent concern over the rising levels of student debt in NZ has focused on the incentives that such debt provides for students to emigrate. While it is too soon to identify whether this is a long-term trend, the initial statistics and surveys support the view that loans encourage newly graduated students to leave NZ in order to pay off their loans at a faster rate. Due to the strength of the pound, and the size of the subsidy offered to loans in the UK, this is unlikely to be a problem in this country. However, the NZ situation provides a useful lesson on the impacts on student behaviour that large levels of debt may have. Should repayment conditions on loans become more stringent in the UK, there could be significant knock-on effects for other parts of the economy in this country (most notably personal finance and mortgage markets) as there have been for the labour market in NZ.

A key finding for the UK is that the NZ scheme offers ICLs to both FE and HE students without distinction. The advantage of the NZ programme is that it does not give students incentives to choose one form of education over another, when both are valuable for the wider economy. Furthermore, the scheme has not been shown to negatively affect participation. Participation rates have followed a strong upward trend that does not appear to have been influenced by the introduction of fees or loans. Indeed, loans are viewed in NZ as a necessary counterpart to fees as they are thought to offset the negative effects of tuition fees on participation, by allowing students to defer the costs of their education.

The NZ experience illustrates that it is possible to operate an FE ICL scheme effectively. The objections that are raised to student loans in the UK context of debt aversion and falling participation have not been shown to be evident in the NZ context. In fact quite the opposite has occurred, with loans viewed as a necessary counterweight to fees. Introducing loans in the FE sector in the UK (particularly at Level 3) could, therefore, offset the negative effects of fees on participation and provide a simple and unbiased funding framework.

Notes

1 Tertiary education in New Zealand is considered to be any education that takes place post-secondary at a university, polytechnic, wananga (Maori-run institutions, usually taught in the Maori language), college of education or private training establishment. The term includes both higher and further education as defined in the UK.

2 Education Statistics of New Zealand.

3 The NZ government provides a public subsidy per student to each institution. The level of this subsidy varies but it is usually between 75% and 95% of the total course cost. The remainder of the course cost is charged to the student as a tuition fee.

4 The rate of return to education is calculated by treating students' costs (fees and income forgone while studying) as an investment, and the increased income available to graduates as an investment return.

5 By comparison rates of return to cash investments over the 1990s were approximately 4.1% (Gareth Morgan Investors).

6 Survey conducted for the Knowledge Wave Conference, 2000.

7 The average debt after 6 years of medical school is NZ$70,000 (£20,300).

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In 2001 the Learning and Skills Development Agency produced a short publication entitled *Lifelong learning – is there a logic for loans?* (Fletcher 2001). It sought to examine the arguments for and against the introduction of a system of loans as part of the overall package of student support for learners in further education and concluded that there was a *prima facie* case for considering the use of loans to support some FE learners.

This publication aims to take the debate forward by looking at how a system of loans for lifelong learning might be positioned. It examines where such loans might work best and where they seem inappropriate. In particular the book seeks to assemble the available evidence about the role and impact of loans in the world of education and training, and to draw conclusions from that evidence about how policy might be developed.

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